# Values Rooted in Manitoba

2001 ANNUAL REPORT

Manitoba Public Insurance

# Our Mission

**PROTECTING MANI[illegible]FROM THE HUMAN AND ECONOMIC COST[illegible]BILE ACCIDENTS**


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102-05757/

# Corporate Values

## AT MANITOBA PUBLIC INSURANCE WE VALUE...

### Our Customers

*Our customers' interests come first. We serve the automobile insurance needs of Manitoba's motorists based on trust, fairness, honesty and integrity, with a commitment to the highest ethical standards and excellence in service. We will always place the legitimate needs of our customers ahead of those of our own.*

### Our People

*Our people are encouraged and helped to succeed. We will provide a positive and safe environment where our staff are well-trained, confident and committed to the Corporate Mission. We will provide our people with direction which is clear and consistent. Our people will have the authority that they need to do their jobs, a sense of achievement from their work, and the opportunity for career growth and advancement.*

### Working Together

*We will work co-operatively with each other and with our business associates, sharing information, ideas and resources. Each of us, in our daily work, will create a team environment, drawing on one another to do the best job possible. All communications will be forthright, accurate and honest.*

### Financial Responsibility

*Manitoba Public Insurance holds the funds of its policyholders in trust to meet the needs of our customers. Manitoba Public Insurance will manage all of its operations including the investment of these funds effectively for the long-term benefit of its policyholders.*

### Excellence & Improvement

*Our customers' needs and the business environment in which we operate continue to change and so must we. Our task is to constantly improve our products, services and procedures. We will demonstrate initiative, creativity and a strong desire for personal, team and corporate success in everything we do. Excellence and improvement in our work are recognized and rewarded.*

### Community Involvement

*We encourage our people to participate actively in their communities.*

### Our Corporate Citizenship

*We will provide leadership to the people of Manitoba by conducting our affairs responsibly and professionally, demonstrating concern for and commitment to our society and the future of our province.*

June 3, 2002

Honourable Gordon Mackintosh
Minister Responsible for The Manitoba Public Insurance Corporation
Room 104, Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister:

In accordance with Section 43(1) of The Manitoba Public Insurance Corporation Act, I have the honour of submitting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2002.

Respectfully Submitted,

Shari Decter Hirst
Chairperson of the Board

Manitoba Public Insurance

June 3, 2002

The Honourable Peter Liba
Lieutenant-Governor Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

May it please your honour:

I have the privilege of presenting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2002.

Respectfully Submitted,

Minister of Justice Gordon Mackintosh
Attorney General and the
Minister Responsible for
Manitoba Public Insurance

Manitoba

## "DOLLARS AND CENTS"

| | |
|---|---|
| Approximate Autopac claims incurred costs per working day: | $1.9 million |
| Total Autopac claims costs for injury and property damage, respectively (before expenses): | $179.1 million and $300.1 million |
| Amount paid by Manitoba Public Insurance to Manitoba medical practitioners on behalf of customers: | $20.2 million |
| Commissions paid by Manitoba Public Insurance to independent insurance brokers for product sales: | $33.9 million |
| Grants-in-lieu of taxes paid to Manitoba municipalities by Manitoba Public Insurance: | $958,000 |
| Provincial premium taxes paid by Manitoba Public Insurance: | $15.8 million (2001 calendar year) |
| Estimated savings to policyholders through use of recycled parts: | $8.9 million |
| Estimated direct savings realized through anti-fraud, anti-crime activities: | $5 million |
| Estimated direct savings to policyholders through subrogation: | $9.4 million |
| Dollars invested in road safety programs: | $6.7 million |

## "SIGNIFICANT NUMBERS"

| | |
|---|---|
| Average number of Autopac claims reported to Manitoba Public Insurance per working day: | 959 |
| Total Autopac claims reported: | 239,753 |
| Bodily injury claims reported: | 14,558 |
| Property damage claims reported: | 225,195 |
| Total theft claims reported in Winnipeg: | 9,898 |
| Total theft claims reported elsewhere in province: | 1,852 |
| Independent Autopac broker outlets, as of February 28, 2002: | 326 |
| Calls taken by the Autopac Line: | 809,473 |
| Number of Autopac policies in force (2001 average): | 794,293 |
| Licensed drivers in Manitoba in 2001: | 710,456 |
| Average weekly visits to www.mpi.mb.ca: | 3,884 |

## FIVE YEAR STATISTICS

| Basic, Extension and SRE* | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Premiums Written ($000) | 595,171 | 539,054 | 529,694 | 502,320 | 483,356 |
| Claims Incurred ($000) | 503,089 | 431,430 | 399,301 | 392,314 | 378,956 |
| Number of Claims | 239,753 | 226,968 | 207,202 | 191,802 | 186,894 |
| Average Cost per Claim ($) | 2,098 | 1,901 | 1,927 | 2,045 | 2,028 |
| Claims Expenses ($000) | 65,491 | 58,741 | 60,081 | 54,007 | 43,035 |
| Other Expenses ($000) | 98,298 | 99,847 | 99,569 | 94,553 | 89,111 |
| Income (loss) from annual operations ($000) | (16,492) | 46,628 | 50,911 | 39,908 | 81,661 |
| Total Compensation | | | | | |
| Investments at Year End ($000) | 1,168,865 | 1,154,983 | 1,054,824 | 963,081 | 876,713 |
| Total Assets ($000) | 1,431,476 | 1,402,456 | 1,284,017 | 1,187,503 | 1,092,648 |

I am proud to introduce our Manitoba Public Insurance 2001 annual report—a document that is much more than a recitation of facts and figures, and that speaks directly to how this organization's core values are rooted here in Manitoba.

A visual theme, featuring images of trees native to or thriving in Manitoba, binds these stories together. The strength and the diversity of our forests are metaphors for Manitoba Public Insurance, its staff and its business partners. Our organization draws its expertise from the diversity of many talents and skills that our people and our partners bring forward every day.

More than 1,300 Manitobans work for this organization in communities across the province. And, in this document, we chronicle the pride and efficiency that characterize our operations.

We also celebrate our organizational commitment to continually ensuring our people have the skills and knowledge to help them meet the evolving needs of Manitobans.

Our people and our partners, in turn, demonstrate their individual commitment to be integral parts of their communities. In this report, we highlight employees who give freely of their time to make their communities stronger.

Our business partners are also uniquely involved in their communities. In this report, we show you how our partners are joining in the fight against auto theft through local Citizens On Patrol Program (COPP) groups.

We talk much about customer service and how we anticipate and implement measures to meet their needs. But, without a strong financial base, we would be unable to meet these obligations. Later in this report, we demonstrate how our financial stewardship is enabling us to withstand some challenging economic conditions that affected both this organization and the entire North American economy.

At the same time, we continue to help build and support Manitoba communities through our commitment to the purchase of local school, health-care and municipal bonds.

On behalf of my colleagues on our Board of Directors, I would like to thank everyone who contributed to the success of Manitoba Public Insurance this year. From the clerks and others on the customer service front-line to the supervisors and managers who keep our operations vibrant and responsive to the Autopac brokers who support both our insurance products and their communities, I thank you and wish you continued success in the coming year.

**Shari Decter Hirst**
Chairperson

MANITOBA PUBLIC INSURANCE BOARD OF DIRECTORS

Jack Zacharias | Manisha Pandya | Shari Decter Hirst (chair) | Andrew Clarke | Paul Moist | Daryl Reid | Annette Maloney | Ed Arndt | Kerry Bittner | Tony Boustcha

Not pictured

In a year when Canadian auto insurers were rocked by turbulent times, Manitoba stood out as a shining example of stability and affordability.

Consumers in virtually every province from British Columbia to the Maritimes faced premium increases of eight to 28 per cent. Higher premiums translated into more drivers operating their vehicles without insurance coverage.

In Atlantic Canada, government commissions have been established to determine why insurance availability is inconsistent and expensive. All but two insurance companies have stopped providing province-wide coverage in New Brunswick.

In Ontario, the Insurance Bureau of Canada is lobbying the government to reform injury coverage to better control medical expense.

Our current environment demonstrates the vision of those who created Manitoba Public Insurance 30 years ago and the dedication of employees who have ensured year after year that the corporation continues to meet its founding principles.

Public auto insurance has worked in Manitoba. Independent studies show Manitobans continue to enjoy the lowest cost auto insurance in Canada for comparable coverage.

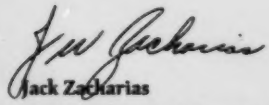
On average, the cost of auto insurance over the last 30 years in Manitoba has increased at a rate lower than inflation while benefits have been enhanced and protection has become more comprehensive.

In fiscal 2001, the corporation celebrated 30 years of serving Manitobans with the first-ever financial dividend as more than 800,000 policy holders shared in almost $81 million. The one-time 16.6 per cent surplus distribution was a crowning achievement made all the richer because it did not come at the expense of benefits or service.

But it was not all good news. A downturn in the economy and the September 11 tragedy had a negative impact on investments and increased reinsurance costs. Added to that, an all-time high number of claims were filed, pushing our total claims costs $30 million higher than expected.

Higher claims costs demonstrated the wisdom of building and maintaining the Rate Stabilization Reserve. The reserve demonstrated in fiscal 2001 its value in helping absorb unexpected losses without requiring immediate rate increases.

I would like to thank the staff of Manitoba Public Insurance for continuing to embrace the challenge of change. After 30 years, Manitoba Public Insurance remains committed to its founding principles and the promise of providing every vehicle owner with comprehensive auto insurance at the lowest possible cost and with outstanding customer service.



**Jack Zacharias**
President and Chief Executive Officer

## MANITOBA PUBLIC INSURANCE EXECUTIVE

| Marilyn McLaren | Charlie Rogers | Clarke Campbell | Wilf Bedard | Kevin McCulloch | Barry Galenzoski | Jack Zacharias | John Douglas |
|---|---|---|---|---|---|---|---|
| Vice-President Corporate Insurance Operations | Vice-President Human Resources | Vice-President Corporate Information Technology & Chief Information Officer | Vice-President Corporate Claims | Vice-President Corporate Legal General Counsel & Corporate Secretary | Vice-President Corporate Finance Chief Financial Officer & Chief Administration Officer | President and Chief Executive Officer | Vice-President Corporate Public Affairs |

# We Value

## Our Customers

Sharon Flett, Hail Customer

### Network of Service

When Manitoba Public Insurance opened for business in 1971, operations were based from a single office on Portage Avenue in Winnipeg.

Thirty years later, 90 per cent of Manitobans live within an hour's drive of one of the 22 claim centres located throughout the province. For those who don't, a network of road runs allows Manitoba Public Insurance employees to provide direct personal service to more than 100 communities in Manitoba.

Within Winnipeg, the corporation also operates two Customer Service Centres that provide a wide range of services to address the specific needs of our customers. In addition to selling Basic and Extension Autopac and Special Risk Extension products, our experienced Customer Service Representatives process a variety of transactions and respond to customer inquiries related to insurance claims procedures, registration regulations and appeal processes. The centres are also there to assist in resolving complex issues such as suspension of registration and coverage, merit discount eligibility and rate appeals.

In 2001, our Call Centre provided comfort, information or opened claims for 809,473 customers. For Manitobans involved in accidents while travelling anywhere in Canada or the United States, we provide a 24-hour emergency line to offer a friendly voice, advice and a helping hand.

Manitoba's 326 Autopac brokers provide assistance to motorists in more than 135 cities and towns. These capable professionals provide information about vehicle registration and insurance products, ensuring vehicle owners get the advice they need to select products and options tailored to suit their needs.

We've worked hard over the past 30 years and are proud to say we offer Manitobans service that is second to none. Our ability to successfully deal with large volume weather-related claims is a perfect example that has been put to the test many times, and last summer was no exception.

Manitoba Pubic Insurance has a catastrophe plan in place for situations like last August's hailstorm in Winnipeg, which resulted in more than 10,000 claims. Staff from across the corporation were mobilized at a facility that processed 295 claims a day, on average, with a minimum amount of delay to our customers.

# Our customers come first

Norm Phillipe, Estimator, South Winnipeg Claim Centre

*"Being part of the Hail Centre team was really a fun experience for all of us. It's great to know that even under difficult circumstances we were able to work well together and impress customers with our efficiency and great service."*

## WE'RE THERE WHEN YOU NEED US

A warm summer evening turned disastrous for many Winnipeggers when a sudden and fierce hailstorm ripped through the southern part of the city on August 21, causing millions of dollars in vehicle and property damage.

Within hours of the storm, senior staff of Manitoba Public Insurance met to put a plan into action that would streamline the estimating process and provide expedited hail service without crippling the city's five claim centres' ability to handle collision claims.

The plan would require dozens of employees from throughout the company moving into a new facility. The centre needed to be wired to carry out all the normal functions of a claim centre and our computer systems would need to be prepped to accommodate the additional workload.

Meanwhile, our Call Centre staff also responded to the crisis in an extraordinary manner. The day after the storm, they opened more than 1,500 hail claims (a "normal" summer day might see 400 to 500 claims). Within a week, more than 5,000 hail claims had been registered.

*Last year our Call Centre staff provided comfort, information or opened claims for 809,473 customers.*

*Manitoba Public Insurance offers exceptional front-line service to our customers no matter where they live.*

*We insured over 800,000 vehicles in Manitoba last year.*

Six short days after the storm, a full Hail Claim Centre was open for business at the Physical Damage Centre in Winnipeg.

"It was up and running with a high level of efficiency in very little time," Hail Centre manager George Clay says. "It worked out great, with things moving very smoothly.

"Having up-to-date technology, such as Pen tablets (a portable computerized "calculator" that estimators use to calculate the cost of a claim) and the Metro program (total loss software), definitely helped process claims faster and more efficiently," Clay says. "But, it takes experienced front-line staff to make a real difference when it comes to quality customer service."

Dale Beardmore agrees. As the lead-hand among the 10 estimators, he was impressed with how everybody pulled together and worked as a strong team during the six weeks the Hail Centre was in operation.

"It was a bit hectic getting up and running, but all our staff—estimators, adjusters, clerical—were awesome," says Beardmore. "Many would stay late, even if a customer showed up right at closing time."

Customers appreciated the effort. Overall, 92 per cent told us they were very satisfied with the service. Many wrote complimenting not only the process, but the individuals who helped them through this difficult situation.

Sharon Flett lives on one of the streets worst hit by the storm. "I didn't know what was happening when the hail started hitting the house. It was terrible," she said.

Luckily Flett was safe and dry in the house, but her car was out on the street bearing the brunt of the storm. "My car had a lot of damage from the hail," she says. "I knew it was bad but I didn't know how bad. In the end it was written off—I certainly wasn't expecting that."

Even though Flett was suddenly left without transportation, she had no complaint about the service she received at the Hail Claim Centre. "It took less than 20 minutes for the whole thing," she says. "My claim was handled very well. They gave me time to consider whether or not I'd like to buy it back and they really looked after me."

When she was finished, Manitoba Public Insurance gave her a ride home.

‹ Temporary Hail Centre ›

*Last summer's storm netted 10,646 claims with costs reaching over $20 million.*

This one storm may have accounted for over 10,000 claims with costs reaching over $20 million, but it wasn't the only time during the summer that Manitoba Public Insurance implemented its hail catastrophe plan. At other times, emergency service runs were made to many areas of the province to expedite service to rural customers and vacationers.

# We Value

# Our People

• Alvin Chartrand & Barbara Bruce – Aboriginal Cultural Awareness Trainers

Manitoba Public Insurance strives to be one of the best places in the province to work and pursue a career.

The corporation wants its employees to have the opportunity to deliver knowledgeable and caring service in new and creative ways and to have pride in the service they provide. On a daily basis, people throughout the corporation work together with a common purpose. Their talents and expertise enable Manitoba Public Insurance to achieve its goals.

Developing people takes skill, and nurturing that talent is not something we take lightly. Supervisors and managers receive specific training for the development of staff, and each employee has the opportunity to pursue career goals through ongoing education and training. Manitoba Public Insurance knows that in a knowledge-based economy success is directly tied to the continuous training and skills development of its workforce.

The corporation believes in providing staff with lifelong learning opportunities through ongoing training as well as through formal educational programs.

We have partnered with the University of Winnipeg and the University of Manitoba (U of M) to develop specific courses that will improve service and expertise. In some cases courses like the Manitoba Public Insurance-supported U of M Case Management Program have become the industry standard, adopted by private sector care-givers.

In 2001, each of our people completed an average of 7.4 days of formal training—well above the national average of four days per year.

This year, we embarked on corporate-wide training of a new and unique nature. Over the next 10 years the Aboriginal workforce in Manitoba is projected to grow at 4.5 times the rate of the non-Aboriginal workforce. That means Aboriginal people will make up a larger portion of our customer base and our workforce. To better prepare the corporation for this reality, Manitoba Public Insurance provided Aboriginal Cultural Awareness Training for all employees and board members as part of our Aboriginal Employment Initiative.

The sessions have helped everyone better understand the importance of appreciating cultural differences and have provided insight that will serve us not only at work, but in other areas of our lives as well.

# Our people are our future

*"Within the next few years many of our new employees will be from the province's growing Aboriginal workforce. We are preparing our workplace for the future through the Aboriginal Employment Initiative."*

## DIVERSITY—OUR PRESENT AND OUR FUTURE

For the past 30 years Manitoba Public Insurance has held a strong commitment to understanding and responding to the evolving needs of our customers. And we fully recognize that issues affecting our customers also affect our staff.

Preparing our people to meet our customers' needs is a key reason behind our commitment to training. Whether it involves techniques to help them become better case managers or skills-building to help them learn new computer technology to better serve customers, investing in people is inextricably linked to meeting the needs of our customers.

Our Aboriginal Employment Initiative (AEI) is one of many ways we are planning for [illegible] we can continue to provide the best possible service and products to all Manitobans.

*Aboriginal Cultural Awareness Training benefits our people by showing economic, racial and social barriers can be overcome.*

*Manitoba Public Insurance offers all our staff the opportunity for lifelong learning through ongoing training and development.*

*In 2001, each of our people completed an average of 7.4 days of formal training.*

One of the most important realities of our marketplace is the growth of Canada's Aboriginal population, which is projected to increase 28 per cent between 1995 and 2010. Obviously, this fast-growing segment of our population will play an important role in our business and workplaces, as both employees and customers.

By building positive relationships with Manitoba's Aboriginal community and by encouraging our employees to learn about this important group of Manitobans, we hope to create an environment where Aboriginal people will feel welcome and included, both as customers and employees.

The AEI provides an excellent example of how Manitoba Public Insurance is working to meet its goal of fostering a culture within our organization that is accepting of diversity.

We knew that for the AEI to succeed it was very important for our people to understand what a vital part they play in the initiative and its success.

Last fall, Manitoba Public Insurance began providing two-day Aboriginal Cultural Awareness Training sessions to all employees. The sessions provided employees with a valuable opportunity to learn about Canada's Aboriginal people—their struggles both past and present and how these influence their lives today.

"These sessions help dispel myths about Aboriginal people which, in turn, helps all Manitoba Public Insurance staff deal more effectively with Aboriginal co-workers and customers," said Barbara Bruce, one of the session trainers. "We work to provide an insight into the realities of what it means to be Aboriginal in Manitoba today."

Bruce and Alvin Chubbrand were asked to design and deliver the Aboriginal Cultural Awareness Training for Manitoba Public Insurance. They drew upon their diverse experiences in working within the province's Aboriginal community and input from people throughout Manitoba Public Insurance to craft a meaningful and passionate session that speaks directly to our staff.

The response has been extremely positive with some calling it a life-changing event. "I thought the training was very good," said Ed Aune, a supervisor at our Winkler Claim Centre. "It was interesting to learn about the history of Aboriginal people in Canada and the challenges they face today. I was surprised by what I learned."

◂ Ed Aune, Claims Supervisor, Winkler

*"It was interesting to learn about the history of Aboriginal people in Canada and the challenges they face today. I was surprised by what I learned."*

The awareness training benefits our people by helping demonstrate that economic, racial and social barriers can be overcome. The training is a real investment in individuals because, while the corporation will benefit through a more diverse and accepting workforce, the goal of the two days was really an individual enrichment by building respect and trust not only in our workplace, but in our communities as well.

# We Value

# Working Together

Joy Trick, SpeedWatch volunteer, right, and Stephen

Manitoba Public Insurance's people have created a team environment that enables them to support each other to do the best job possible.

This spirit also extends to our relationships with our business associates and community partners. Manitoba Public Insurance believes it is strongest when it is part of a community partnership with like-minded organizations, groups and individuals.

By sharing information and resources, we have created strong and mutually beneficial relationships with many organizations—such as the Manitoba Safety Council, the Manitoba Society of Seniors, Manitoba Justice, the City of Winnipeg, the Manitoba Association of School Trustees and local police agencies—that share our mandate to pursue community safety and loss prevention programs.

These partnerships benefit all Manitobans by creating initiatives that will help make Manitoba a safer driving jurisdiction.

**SpeedWatch** is a Manitoba Public Insurance Road Safety initiative that provides local solutions to community speeding issues.

The program is designed to educate drivers about the speed they're travelling and prompt them to slow down. Speed reader boards provided by us and monitored by community volunteers show drivers how fast they're travelling compared with actual speed limits.

Police statistics show at least 14 people are killed, 384 are injured, and more than 800 property damage collisions occur every year in Manitoba because motorists speed. "Speed remains one of the leading causes of death and injuries in this province," says Paul Allen, Manitoba Public Insurance Road Safety Manager. "Combining resources with these groups allows us to build a strong program and helps to reinforce our commitment to community safety."

In Winnipeg, **SpeedWatch** comprises a residential program aimed at drivers on neighbourhood 50 km/h zone streets and a second program aimed at drivers travelling through school zones. A third Winnipeg program, targeted for regional streets with speed limits over 50 km/h, was unveiled this spring.

# Creating safer communities

• Shauna Crognali

*"Our volunteers are enthusiastic about SpeedWatch and realize the value it has toward reducing speeding and improving road safety."*

## BECOMING PART OF THE SOLUTION

In rural Manitoba, eight communities have established permanent **Rural SpeedWatch** community-based programs.

Last year, 19 volunteer groups in communities like Thompson, Swan River, The Pas, Gimli, Grand Beach, Selkirk, Poplar Point, Spruce Woods, Portage la Prairie and East St. Paul logged more than 640 hours monitoring the speed of more than 25,000 vehicles.

"Volunteers are enthusiastic about the program and realize the value it has in improving road safety," says Program Co-ordinator Shauna Crognali. "Their participation clearly demonstrates the desire Manitobans have to take ownership of this problem and actively become part of the solution."

*Nearly 250 SpeedWatch volunteers dedicated 1,030 hours to the program in 2001. Close to 68,000 vehicles went through the checkpoints.*

*We support 54 COPP groups working in 35 regions across the province.*

*In 2001, Manitoba Public Insurance partnered with CKY-TV to produce 24 safe driving infomercials called the 60 Second Driver, airing on the radio with equivalent road safety messages.*

Joy Trick co-ordinates the **School Zone SpeedWatch** program near Ecole Julie-Riel in St. Vital. "Speeding is a big concern in our neighbourhood," says Trick. "I've witnessed some close calls and many of the residents who have seen us out with the reader board have commented that 'it's about time' that something like this was undertaken."

Trick says the speed reader board is effective at making drivers take notice of the speed they are traveling. "A lot of drivers assume the speed limit along our street is 60 km/h, but it's only 50," says Trick. "We saw cars travelling in excess of 70 km/h toward the school patrols. The reader board slows everyone down and makes them aware of the posted speed limit."

In Ste. Rose du Lac, one citizen who is the eyes and ears of local police is also the public face for Manitoba Public Insurance products.

As the owner of Saquet & Vandenbosch Insurance Brokers, Ron Vandenbosch has

devoted a big part of his life to providing professional advice on how neighbours and friends can protect themselves, their homes and their automobiles.

As the past president of the Insurance Brokers Association of Manitoba (IBAM), Vandenbosch has offered his talents to other communities through the province-wide network of 326 insurance brokers. He has a real knack for assessing risk and putting in place a plan to reduce it.

It's not surprising that when residents of Ste. Rose du Lac began to worry about public disturbances, property damage and other crime, Vandenbosch was ready to jump in and help with a solution in the form of the Ste. Rose du Lac Citizens On Patrol.

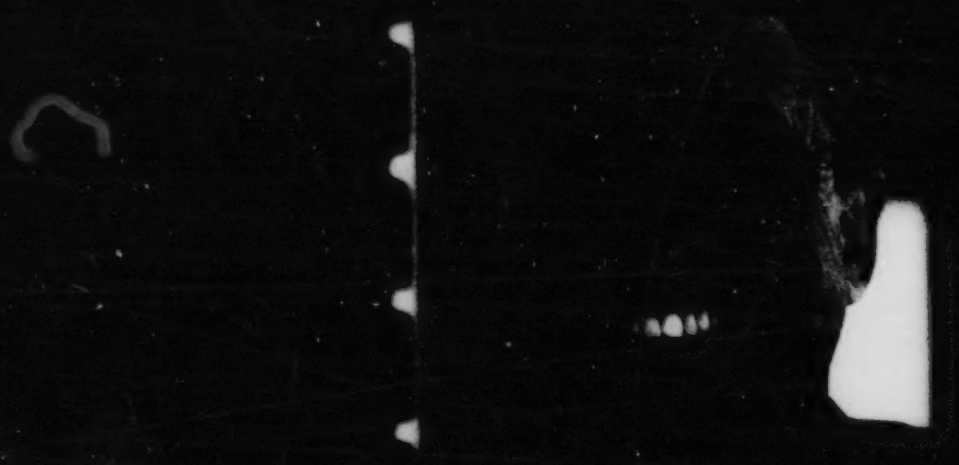
"We got started in 1994," says Vandenbosch. "And today we've got close to 50 volunteers in our group. We've had good success for a small community."

The Citizens On Patrol Program (COPP) has been operating in Manitoba for more than 15 years. What started as citizens partnering with local law enforcement agencies and businesses has expanded to a province-wide network of communities supported by Manitoba Justice.

In 2001, Manitoba Public Insurance joined the partnership offering support, training and organizational assistance. Our immediate goals are to help develop a province-wide pre... provide comprehensive training and develop a co...nicatio... network that allows groups to learn from one ... provide support.

Communities and neighbourhoods across the pro...ce often fa... similar crime and crime prevention issues. Local law enforcement resources are stretched thin and, despite their best efforts, police are sometimes limited in the coverage they can provide to their

Ron Vandenbosch



*"If my customers have to make a claim related to a crime, it affects us both. If we can reduce crime and increase community awareness, we all benefit."*

communities. As a result, they have sought the support of residents to complement and enhance their community safety efforts. The aim of COPP is to mobilize citizens to take shared responsibility and ownership of their community safety.

Vandenbosch believes there is a connection to groups such as COPP and the insurance industry. "If my customers have to make a claim related to a crime, it affects us both," says Vandenbosch. "If we can reduce crime and increase community awareness, we all benefit."

Vandenbosch also brings his influence as a member of the provincial COPP Advisory Committee that has representation from 15 regions across Manitoba to get the word out to other brokers about the advantages of starting a COPP group in their community.

"I'm really proud of our program, " says Vandenbosch. "Any community will benefit from undertaking COPP."

# We Value

## Financial Responsibility

‹ Leslie Collins, Adjuster, North Winnipeg Claim Centre, with customer

Most large companies believe that holding themselves financially accountable to their shareholders is one of their most important roles. For Manitoba Public Insurance, those shareholders are fellow Manitobans, and we take this responsibility seriously.

As a Crown corporation, we are accountable to Manitobans for how well we manage this organization and the premiums they pay. It is our job to provide a superior benefit package while still maintaining rates lower on average than those charged by the private sector.

Because insurance is basically a group of people pooling their funds to help mitigate potential future risks, how well those funds are managed can be an important factor in helping to make sure that money is available when policyholders need it. It can also help reduce the amount of money each policyholder needs to put into the pool.

Manitoba Public Insurance is committed to being financially self-sufficient and stable. We continuously work to mitigate potential risks by maintaining a long-term financial plan and aggressively managing foreseeable and unforeseen future financial outcomes.

One of the ways we demonstrate our commitment to financial responsibility is by pursuing mutually beneficial working partnerships that allow us to accomplish far more than would be possible by working alone. We try to keep corporate costs at the lowest possible level by getting the best value for every dollar spent while keeping customers' needs at the forefront. We aim to be financially responsible by making systems and processes more efficient and cost effective.

Another important way in which we demonstrate our financial commitment to Manitobans is by maintaining financial reserves that protect them from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

# Protecting our policyholders

‹ Peter Dyck

*"Manitobans tell us that they value rate stability—that having low rates one year followed by a dramatic increase the next, because of an unexpected jump in claims or other unforeseen events, is not what they want."*

## FINANCIAL STABILITY FOR THE FUTURE

One of our most important corporate goals is to provide rates that are equitable and reasonably stable over time. But because unexpected events can and do happen, keeping rates steady is a delicate balancing act that requires holding some funds in reserve.

"Manitobans tell us that they value rate stability," says Manitoba Public Insurance Director of Finance and Corporate Controller Peter Dyck. "They don't want to have low rates one year, only to have a dramatic increase the next because of an unexpected jump in claims or other unforeseen events."

During the early 1990s a series of unexpected event[illegible] Insurance[illegible]r to shi[illegible]ons in [illegible]n a [illegible] Rate Stabilization Reserve (RSR) in 1996. The plan included a series of rate adjustments that would be specifically tied to rebuilding the RSR over a multi-year period. Funds were dedicated to the reserve until it reached its current target range of $80 to $100 million.

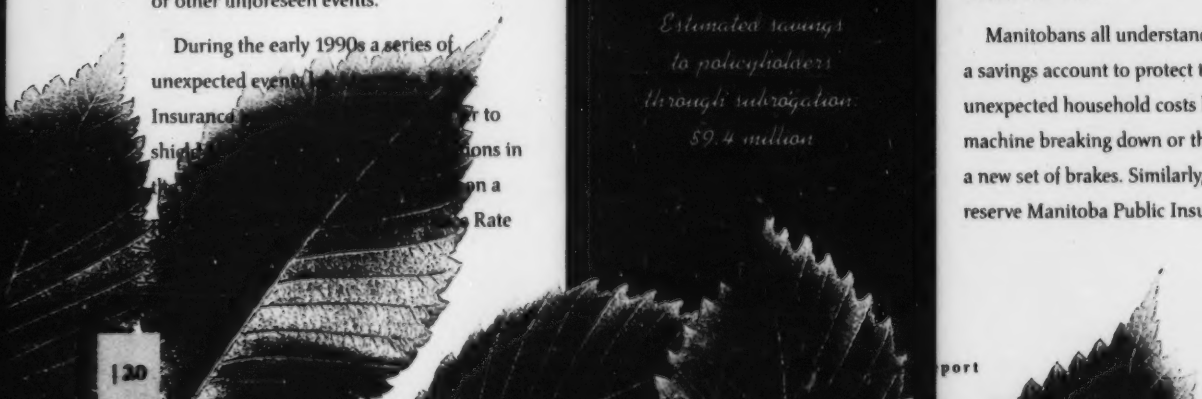
A reserve of between $80 and $100 million sounds like a lot of money. But to put it in perspective, consider that a single incident—such as a hailstorm—can result in more than $50 million in claims. In fact, in the private sector, insurance companies are required by law to maintain reserves much larger than those of Manitoba Public Insurance.

Manitobans all understand the need to keep a savings account to protect themselves from unexpected household costs like the washing machine breaking down or the car needing a new set of brakes. Similarly, by maintaining a reserve Manitoba Public Insurance is following

*Estimated savings to policyholders through the use of recycled parts: $8.9 million*

*Estimated savings realized through anti-crime, anti-fraud activities: $8 million*

*Estimated savings to policyholders through subrogation: $9.4 million*



good business practices and protecting its policyholders from large rate increases brought on by unexpected events.

"There have been three significant factors that have had an effect on our financial position this year," says Dyck. "First was the unexpected increase in both the volume and cost of claims."

Manitoba Public Insurance got hit with a double whammy as a record number of claims were filed and the cost of making those repairs skyrocketed due to unexpected parts price increases that drove costs up by more than three times the inflation rate. In all, $79 million was added to claims costs.

In another case, the tragic events of September 11, 2001 had the effect of dampening investment prospects and more than doubling the cost of reinsurance rates for insurance companies.

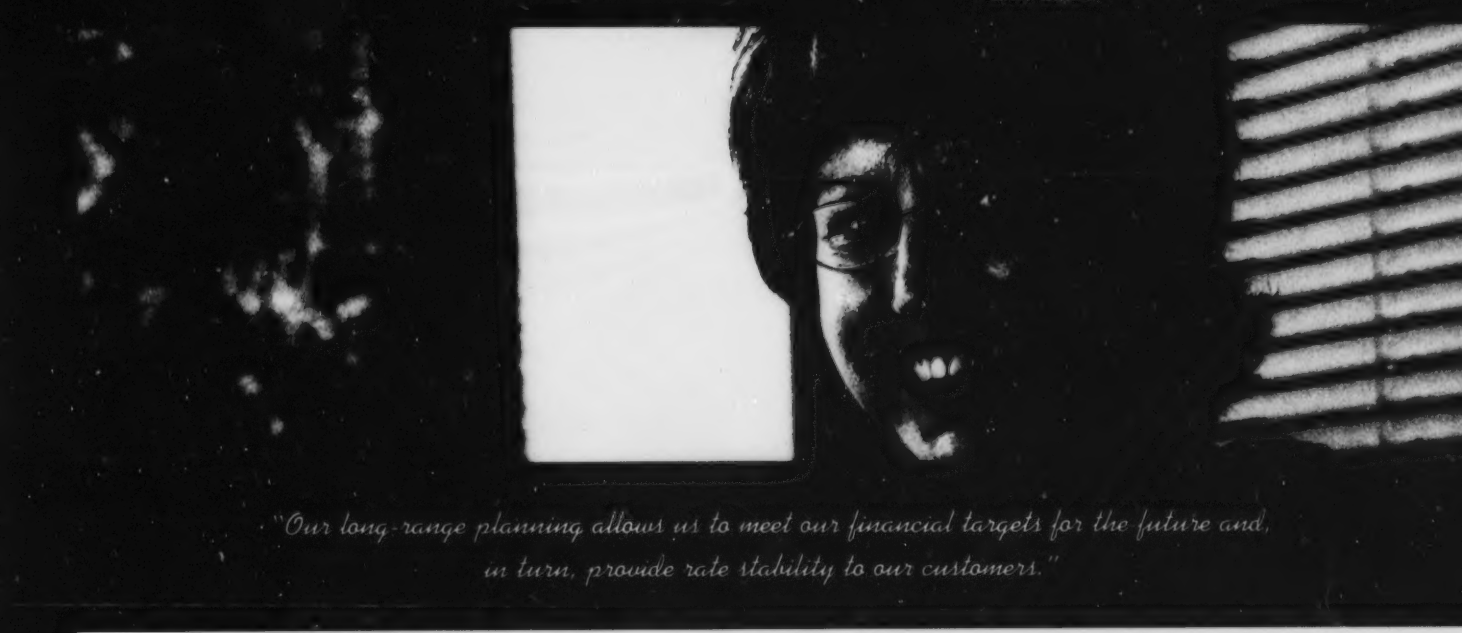
"The third significant factor was related to the overall slowing down of the North American and world economies," says Dyck. "Like everyone else who invests, we were affected by lower interest rates and the general softening of the markets. This resulted in a decline in our investment income."

The RSR allowed the corporation to adjust its rates to account for these new realities without going to government.

In addition to protecting policyholders from rate increases, the RSR serves another purpose. When the company benefits from strong financial performance customers can benefit directly. Manitoba Public Insurance has developed a policy that funds in the RSR in excess of the target, once earned, will be returned to Manitobans in the form of a one-time surplus distribution.

For example, a gain on the sale of investments is expected to push the RSR to $143 million. In 2001, that translated into

• Betty Wayborn, Manager, Budgeting & Planning



*"Our long-range planning allows us to meet our financial targets for the future and, in turn, provide rate stability to our customers."*

a 16.6 per cent one-time surplus distribution being shared by all vehicle owners. That translated into more than 800,000 policyholders receiving about $100 each for a total distribution of nearly $81 million.

Planning the financial future in the insurance industry incorporates both long and short-term time horizons. Using the RSR to directly benefit Manitobans while maintaining it at the level needed to protect them reflects necessary prudent financial stewardship.

At a time when automobile insurance rates are climbing in double-digit increments in many other provinces, Manitobans continue to pay among the lowest rates in the country. Manitoba Public Insurance's commitment to building and responsibly maintaining its rate stabilization reserve is one of many reasons why Manitobans continue to enjoy this stability.

# We Value

# Excellence & Improvement

Evelyn Maligec, Customer Service Representative: Broker Support Services, with customer

At Manitoba Public Insurance, we strive every day to see ourselves through the eyes of our customers and to continue improving how we serve Manitobans.

Since opening our doors 30 years ago, we've worked hard to make the service we provide more efficient and effective and ensure our products meet customer needs. And we've shown our commitment to excellence and improvement in countless advances, from our Dial-a-Claim service (1979) to the Merit Discount Program (1988) and the Personal Injury Protection Plan (1994).

As the world has changed in recent years, so has the pace of our improvements. In 1995, we opened a full-service Call Centre to more efficiently handle claims reporting and inquiries, launched Autopac On-Line, a rewrite of Autopac insurance product systems for the electronic age, and became the first Canadian insurer to adopt the leading-edge Canadian Loss Experience Automobile Rating (CLEAR) rate-setting system.

We beefed up our road safety programming in 1996 to help protect Manitobans and introduced the convenience of short-term Autopac policies a year later. In 1999, our computerized Claims Administration and Reporting System (CARS) went online to better track customer information, we opened our Fair Practices Office to review and advise on policies and procedures that could be changed to help customers and introduced the Children's Traffic Safety Club in day-care centres across the province.

The new millennium saw the unveiling of our Web site at www.mpi.mb.ca, more customer payment options through Auto-Pay and the introduction of our Aboriginal Employment Initiative. Also in 2000, two major projects would pave the way for meaningful changes in the way we reflect excellence and improvement in all our work—a comprehensive Employee Opinion Survey and the launch of **Customer Service Standards**, which are designed to monitor and measure how we meet customer needs and expectations every day.

# Meeting our changing needs

• Chrispin Ntungo

*"Every time a customer makes a phone call to the Call Centre, visits a claim centre or renews a vehicle policy through our offices, their experience is monitored through Customer Service Standards."*

## TRACKING OUR SUCCESS

For Terry Richlew, excellent customer service means doing what comes naturally.

Recently, the Estimator at our Claim Centre on Pacific Avenue in Winnipeg left Ed Haluschak so impressed with his work and attitude he called our Customer Relations unit. "He knew how I felt," said Haluschak, who had two claims assessed by Richlew this winter. "He even took the time to look at my (previous) repairs. He really made it a smooth experience."

Haluschak had some doubts about the company before he first arrived at the claim centre, but when he left he said he was proud to shake Richlew's hand.

In August 2000, Manitoba Public Insurance formally began reporting on a wide variety of contacts we have with our customers through a system known as Customer Service Standards. Standards are designed

*To treat customers with respect and courtesy.*

*To treat all customers in a manner which is, and is perceived to be, fair and consistent.*

*To provide products and services that are responsive to our customers.*

*To provide our customers with complete information to make informed choices.*

*To provide our customers with complete entitlement to benefits and services.*

ensure we provide excellent service and to highlight those occasions when we don't so that we can take action to improve.

More than 18 months of reporting has shown that in the roughly 9 million interactions the standards measure, our staff provides great service and most customers are satisfied with their experiences. Overall, Service Standards targets were met or exceeded 90 per cent of the time in 2001. In helping Haluschak, for instance, Richlew simply treated the customer as he himself would expect to be treated. The objective of Service Standards is to help make sure all staff have the time, resources and support to do likewise—and that the company focuses on what matters most to Manitobans.

The standards are a set of concrete and measurable statements that range from underlying commitments to treat customers courteously and honestly, to specific time periods for estimating a vehicle or particular criteria to be met in completing a claim.

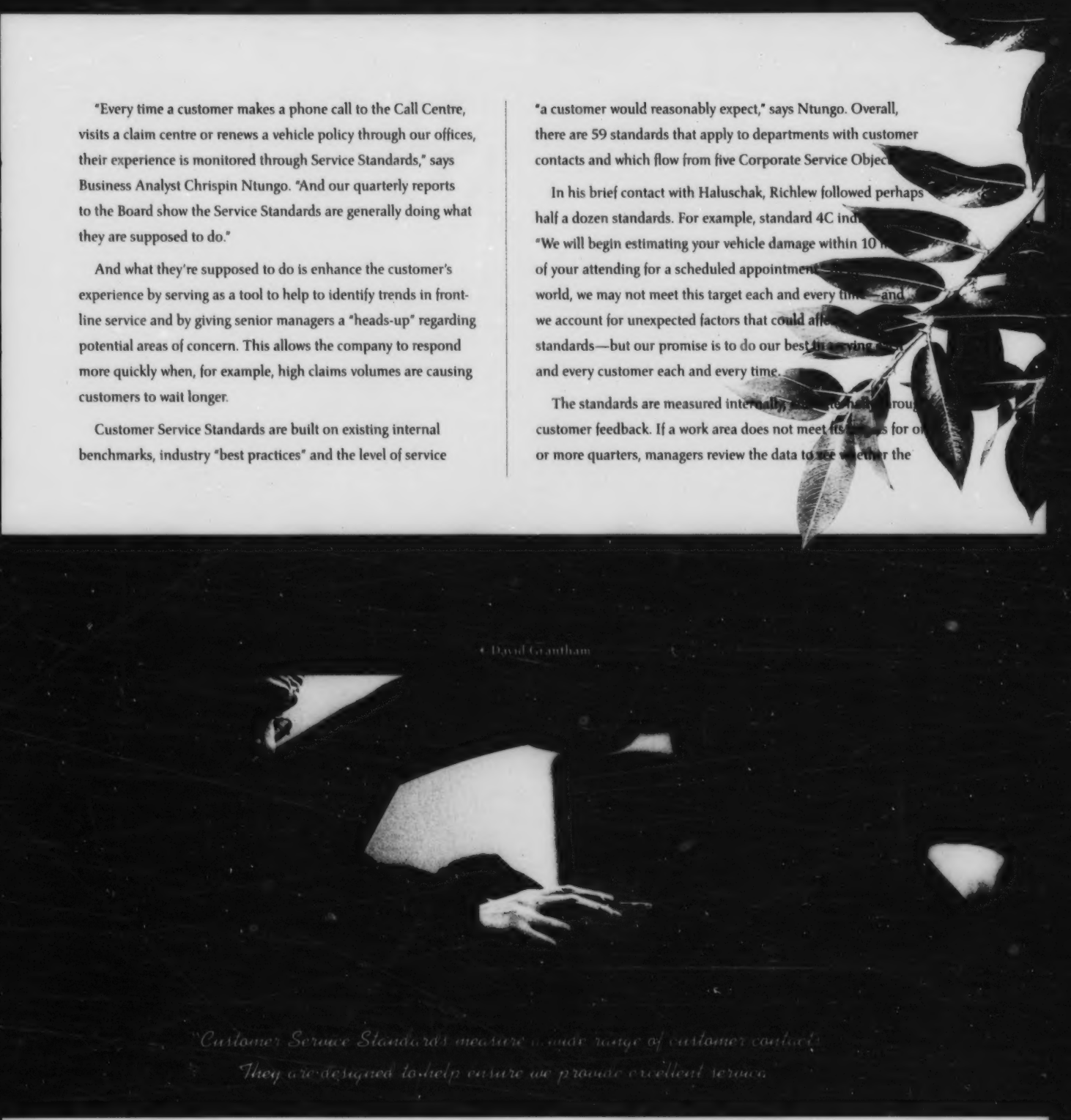
"Every time a customer makes a phone call to the Call Centre, visits a claim centre or renews a vehicle policy through our offices, their experience is monitored through Service Standards," says Business Analyst Chrispin Ntungo. "And our quarterly reports to the Board show the Service Standards are generally doing what they are supposed to do."

And what they're supposed to do is enhance the customer's experience by serving as a tool to help to identify trends in front-line service and by giving senior managers a "heads-up" regarding potential areas of concern. This allows the company to respond more quickly when, for example, high claims volumes are causing customers to wait longer.

Customer Service Standards are built on existing internal benchmarks, industry "best practices" and the level of service "a customer would reasonably expect," says Ntungo. Overall, there are 59 standards that apply to departments with customer contacts and which flow from five Corporate Service Objec

In his brief contact with Haluschak, Richlew followed perhaps half a dozen standards. For example, standard 4C ind "We will begin estimating your vehicle damage within 10 of your attending for a scheduled appointment world, we may not meet this target each and every ti and we account for unexpected factors that could affe standards—but our promise is to do our best and every customer each and every time.

The standards are measured inter customer feedback. If a work area does not meet its or more quarters, managers review the data to see



© David Grantham

*"Customer Service Standards measure a wide range of customer contact. They are designed to help ensure we provide excellent service."*

matter is related to technology, performance, staffing levels or other issues.

"Over time," Ntungo says, "we expect Service Standards to play a key role in managing service quality within the company, helping us to stay abreast of changes in customer expectations and helping us maintain the strategic balance of operational costs and customer benefits in key service departments."

# We Value

## Community Involvement

Manitoba Public Insurance has a long-standing history of being an active and supportive member of the community.

Our continued involvement with charitable organizations like the United Way and the Multiple Sclerosis Society or community programs such as Operation Red Nose and Manitoba Crime Stoppers is just one example of the many ways we are committed to making Manitoba a great place to live.

Our employees also demonstrate this "good citizenship." Manitoba Public Insurance staff members volunteer, on average, 130 hours per year in their communities.

They do this in many different ways—from supporting our organization in corporate efforts to following their own individual interests and commitments.

No matter how large or small the effort, Manitoba Public Insurance is proud of the community spirit of our people and recognizes their valuable volunteer efforts in a variety of ways. In these stories you'll read about three remarkable individuals who are making our communities better places to live...

Senior Case Manager Steve Lupky is modest about the long list of community endeavours he's involved with in his home town of Arborg.

"When you live in a small town, being involved in things doesn't seem all that special," says Lupky, who has worked at the Arborg Claim Centre since it opened in 1991. "You get out of your community what you are willing to give to it."

Lupky's contributions include a commitment to helping keep his rural community flourishing. He was instrumental in forming a community development committee, which he serves as president. He has also worked with community members throughout the area to help sow the seeds for entrepreneurial growth that benefits Arborg and the surrounding region's 14,000 people.

He has also served as a town councillor for the past decade and is chairperson of the local hospital foundation.

When asked how he finds time to fit all this into his daily routine, Lupky says, "It all seems to work out. It doesn't really seem like work if it's something you care about."

# Active in our communities

Jim Shaw

*"Our province's voluntary sector is an integral part of our communities and covers a broad range of everyday life activities. It really enriches the social fabric of our society."*

## VOLUNTEERING BENEFITS EVERYONE

Jim Shaw joined the board of directors of the Volunteer Centre of Winnipeg seven years ago. In that time he has seen the face of volunteerism in Manitoba change.

"Financial cutbacks in both the public and private sector have created a need for volunteers to fill the void for vital services that have been lost. There is a need to address how this affects volunteerism as a whole," explains Shaw.

In the face of this increased need, the Volunteer Centre became concerned about sustaining the voluntary sector over the long term. In 1998 the Centre conducted a study, the results of which clearly indicated that the challenges facing this sector went far beyond the issues of accessing and recruiting a dependable supply of volunteers.

*Manitoba Public Insurance staff members volunteer, on average, 130 hours per year in their communities.*

*Our employees offer their time and financial support to what we see many of our corporate partners contribute.*

*Manitoba Public Insurance and its employees contributed $169,000 to the United Way last year.*

"We also discovered that significant weaknesses exist in terms of a lack of cohesive voices to represent the interests of the volunteer sector to government, business, labour and the public-at-large," Shaw says.

The Manitoba Voluntary Sector Initiative (MVSI) grew out of the Centre's positioning exercise. The Centre has taken a leadership role in the MVSI and in conjunction with the initiative formed the Voluntary Sector Council with partners that include The Winnipeg Foundation, United Way of Winnipeg, Social Planning Council of Winnipeg and Arts Stabilization Manitoba. Shaw is the Chair of the Voluntary Sector Council, which serves as an adviser to the MVSI.

"I'm really excited about what we're doing," he said. "We are the first group in Canada to take a look at volunteerism and work at solutions to the challenges that volunteer organizations face."

Seven years ago, Brenda Plohman was a volunteer looking for an opportunity.

While sitting outside her office one day she noticed the headquarters of the Canadian National Institute for the Blind (CNIB) across the street. "I thought maybe I should check into it," she says. "I wanted to do some volunteer work, but I just wasn't sure what."

That long ago inquiry turned into a lifelong friendship for Brenda and Ron Dewar.

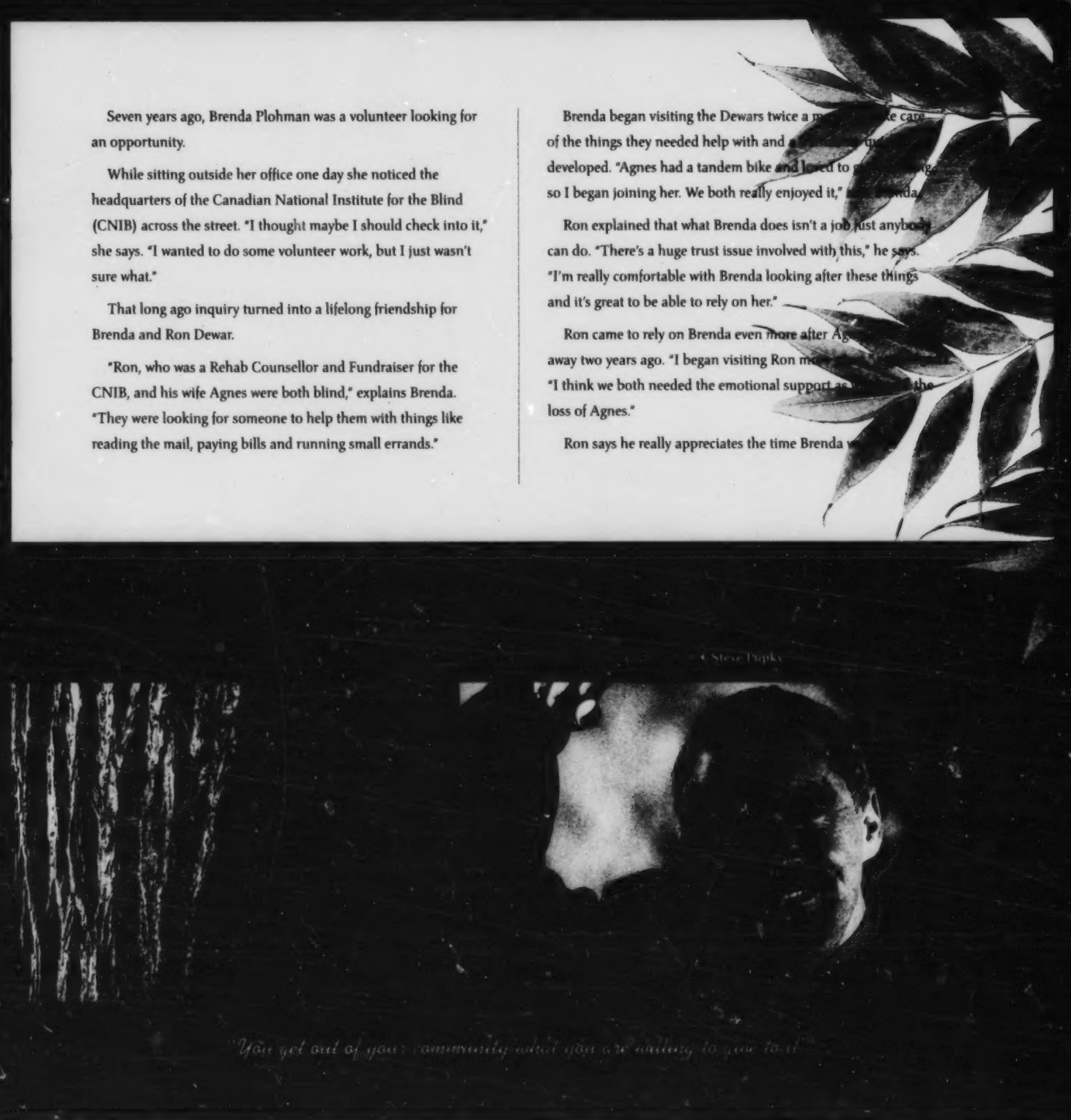
"Ron, who was a Rehab Counsellor and Fundraiser for the CNIB, and his wife Agnes were both blind," explains Brenda. "They were looking for someone to help them with things like reading the mail, paying bills and running small errands."

Brenda began visiting the Dewars twice a m[illegible]e care of the things they needed help with and a [illegible] developed. "Agnes had a tandem bike and loved to [illegible] so I began joining her. We both really enjoyed it," [illegible]nda.

Ron explained that what Brenda does isn't a job just anybody can do. "There's a huge trust issue involved with this," he says. "I'm really comfortable with Brenda looking after these things and it's great to be able to rely on her."

Ron came to rely on Brenda even more after Ag[illegible] away two years ago. "I began visiting Ron m[illegible] "I think we both needed the emotional support as [illegible] the loss of Agnes."

Ron says he really appreciates the time Brenda [illegible]




to spend with him after Agnes' death. "Brenda knew Agnes well and she always looked forward to the days when Brenda was coming over. She's been a really important person in our lives."

Although Brenda knows what she does for Ron is important to him, she is quick to point out that the benefit to her is equal. "What I help Ron with is just a little something for me to do. But getting to know Ron and Agnes has given me a greater appreciation for life. That has meant a lot to me."

# We Value

# Our Corporate Citizenship

• Dan Gunmond

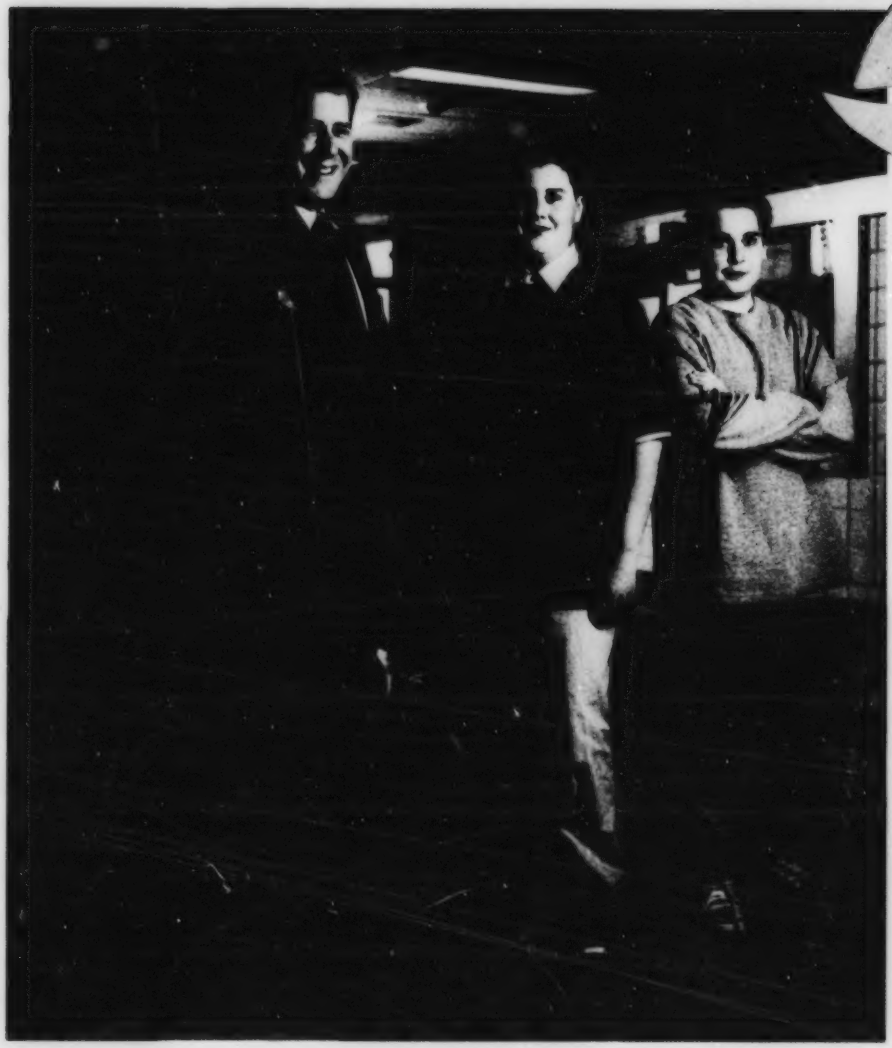
Manitoba Public Insurance is truly and deeply rooted in this province. When the corporation was founded as a made-in-Manitoba solution to problems plaguing the insurance system 30 years ago, a set of general objectives was laid out to establish the organization's mandate.

One of the most important of these objectives was a commitment that Manitoba Public Insurance would invest a significant portion of its insurance capital right here at home—putting Manitobans' money to work building and strengthening our communities and enhancing the quality of life in our province.

Since then, Manitoba Public Insurance has invested more than $1.5 billion in communities throughout the province. Through the Manitoba Department of Finance, Manitoba Public Insurance has purchased bonds and debentures issued by municipalities, school divisions and health-care facilities across the province. Since 1971, the corporation has purchased more than 3,000 bonds and debentures helping communities from Winnipeg and Brandon to Tiger Hills and The Pas. In all, about $295 million has been invested in municipalities, $86 million in health care and about $345 million in schools throughout the province.

In 2001 alone, Manitoba Public Insurance invested $33.6 million in bonds supporting projects on behalf of all Manitobans. Whether it's repairing a community centre, upgrading the heating system in a hospital or building a new school, Manitoba Public Insurance is there, committed to the future of Manitoba.

Last year Manitoba Public Insurance's Finance Division added an Investment Department to enhance this area. This new department is responsible for monitoring the returns, risks and Investment Council compliance for investments made on behalf of Manitoba Public Insurance.



# Rooted in Manitoba

*"Many of the classrooms in our old school didn't have windows. I love it that our new school has big windows in every room"—Renee. "We have a really cool shops classroom in our new school, so we don't have to travel somewhere else for that now"—Christian.*

## NEW SCHOOL CONNECTS TO COMMUNITY HISTORY

The phrase "out with the old, and in with the new" was especially fitting for staff, students and parents of École Christine-Lespérance when they rang in the New Year this year.

The new school, which is part of the Division Scolaire Franco-Manitobaine (DSFM), opened its doors for the first time in early January to welcome students who were formerly attending École Lavallee.

"It has all been very exciting for us," says Maurice Landry, Principal of Christine-Lespérance. "This is the first new school that the DSFM has ever built. We had been renting space in Lavallee School since 1994, when the division was [illegible]ated, and it's nice to finally [illegible]r own."

A new name was needed for the school because Lavallee School still exists as part of the St. Vital School Division. "It was hard to find a name," says Landry. "It had to have a francophone connection and most of our historically famous French-Canadian people already have something in Manitoba named after them."

The Parent Council settled the dilemma by holding a contest to name the school. An archivist with the Grey Nuns order suggested Christine-Lespérance.

"Sister Christine Lespérance was sent by the Archbishop Taché of St. Boniface in the 1860s to establish a school for the large French and Metis population that lived along the Red River in St. Vital," says Landry. "It was a small log building located close to where the Bishop Grandin Bridge stands today."

"That was the first school in St. Vital, so it is very fitting that we chose to name our school, the first new school in our division, after Sister Christine," he says. "It is also the first school ever to be named for a Grey Nun."

The new school is a far cry from the one Sister Christine opened almost a century and a half ago. The 64,000-square-foot facility is one of the largest elementary schools in the province and is home to 430 students and 50 staff.

École Christine-Lespérance also has a nursery school program and two day-care programs that can accommodate 40 children each. The school has an impressive multi-media lab, a spacious library, music room, labs for home economics and shops, and a large multi-purpose room complete with a canteen.

"It's wonderful to have the extra space," says Landry. "We are now able to offer better programming and services to our students."

Landry was also quick to mention that the transition to the new school was greatly aided by the Parent Co "Before construction had even begun, our Parent Coun had raised $80,000 for a playground structure," say

Dan Guimond, Manitoba Public Insurance's Di of Basic Autopac Support and Operations, serves on th school's Parent Council. Guimond is pleased that the corporation has played a role in building the school.

"Manitoba Public Insurance invests in Manito Guimond says. "I'm very proud to work fo does this, which in turn allows our children to enjoyable environment."

‹ Brian Jackson

*"Manitoba Public Insurance is committed to putting Manitobans' money to work building and strengthening our communities and enhancing the quality of life in our province."*

Last year Manitoba Public Insurance invested funds in 40 school divisions across the province. Over $7 million of the construction funds for École Christine-Lespérance came from debentures purchased through our investment fund. We are proud to be part of projects like École Christine-Lespérance that benefit communities all over Manitoba.

"The school has been a nice gift for the whole francophone community in St. Vital," says Landry. "It has provided structure and given a sense of ownership to the community."

## FAIR PRACTICES OFFICE COMPLETES SECOND YEAR OF OPERATION

The Fair Practices Office (FPO) was established in late 1999, and has recently completed its second full year of operation. Manitoba Public Insurance created this arm's length office to examine policies, procedures and even legislation that affect customers.

Part of the office's examination process involves investigating all formal Manitoba Public Insurance customer concerns presented to the Provincial Ombudsman. As well, the office receives input from other customers and Manitoba Public Insurance staff about issues that affect them.

While the office promotes fair process, it is not a formal avenue of appeal. It can recommend that an issue be reviewed and can also alert Manitoba Public Insurance's President and CEO that a policy may be unfair. Individual customers who bring their concerns to the office can be assured they will receive assistance in determining the best "next step" for their particular issue.

The goal of the Fair Practices Office is to resolve as many outstanding issues as possible internally. Since its inception, the FPO is pleased to say the number of official inquiries to the Ombudsman's Office has been reduced by 63 per cent.

"Not only has the number of inquiries declining," says Ted Letkemann, ager, Fair Practices Office, "but in most the Ombudsman's findings conclude urance staff have acted fairly and reasonably in making their decision.

"This is a testament to the work of the front-line staff. Our role is to impartially present Manitoba Public Insurance's position for the Ombudsman's Office to review. In other words, what our office can send forward to the Ombudsman relies, in large part, upon the quality of the original work done by the Manitoba Public Insurance staff."

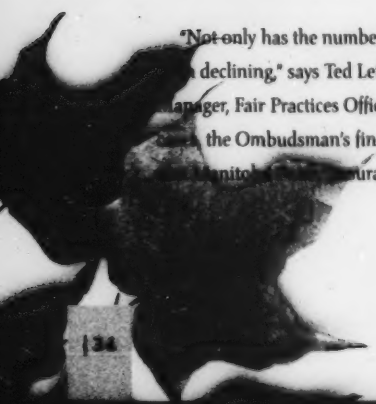
In the last fiscal year, the FPO reviewed 685 customer enquiries. It recommended the corporation revise its decision in 33 cases or about five per cent of the time.

Having examined customer issues from a variety of perspectives, the FPO reports its observations to the President and CEO of Manitoba Public Insurance on a regular basis. Some of these observations will result in a comprehensive examination of the issue with recommendations that are again forwarded to the President and CEO. This ability to access the highest Executive level provides a unique opportunity for the office to elevate the exposure of customer issues and to ensure a complete airing of these issues.

An important focus for the FPO is to ensure that Manitoba Public Insurance continues to offer comprehensive auto insurance as well as superior coverage in keeping with the corporate goals and vision. In order to fulfil that commitment the office continues to benchmark the various insurance products and benefits against the industry standards.

Letkemann says he and his staff of experienced Manitoba Public Insurance front-line professionals expect that customers' expectations will continue to evolve. They will remain vigilant that Manitoba Public Insurance policies, procedures and legislation are synchronized with customers' needs and expectations.

The FPO remains committed to identifying issues that customers perceive as unfair and to ensuring that those issues receive a thorough examination. The office will continue to put Manitoba Public Insurance customers first by working to refine policies, procedures and legislation to better reflect their needs and expectations.



## CORPORATE GOVERNANCE

As a publicly owned corporation, Manitoba Public Insurance is dedicated to being accountable for its policies and actions and meeting the evolving needs of our customers, employees and business partners.

In fiscal 2001, the Board of Directors reviewed its governance policies and the assignment of responsibilities and authorities for key corporate functions. The result was a realignment of some responsibilities and amalgamation of others. Processes were streamlined and reporting clarified. The internal review was strengthened by the expertise offered by external oversight and evaluation.

The corporate governance structure is laid out in The Manitoba Public Insurance Corporation Act, related legislation, Corporate by-laws and policies expressed through Board resolution. Governance has also established a framework for a more effective relationship between staff, senior management and the Board. It also sets out operational practices and performance measures to be followed by the corporation.

Manitoba Public Insurance was created by an act of the legislature that set out the goals and objectives of the corporation. The Minister Responsible for Manitoba Public Insurance has legislative accountability for the corporation and has the responsibility of communicating the government's expectations and public policy objectives to the corporation.

The corporation is guided by a Board of Directors that is responsible for policy development and approval as well as providing oversight and monitoring. It approves the corporation's annual operating and capital budget ensuring congruence of strategic plans. The Board of Directors oversees the creation of a five-year strategic plan, monitors its progress and measures its success. The Board has also designated committees that deal with budgeting and operations, human resources, audit, investments and governance functions.

The Crown Corporations Council, by legislation, conducts a mandate and strategy review of Manitoba Public Insurance and encourages good governance and monitoring. The Council reports its findings to the provincial government on a regular basis.

Annually, the corporation submits its proposed rates and fees for compulsory insurance to the Public Utilities Board of Manitoba for its review and approval.

The corporation is also accountable to individual customers and claimants. By legislation, the corporation must monitor and report on complaints and inquiries. Decisions made by the corporation may be appealed internally and/or to an independent body for final determination.

Customers who feel they have been wronged also have the option of meeting with Manitoba Public Insurance's Fair Practices Office. This office operates at arm's length from corporate management and reports directly to the President and Chief Executive Officer. In addition to looking into specific complaints, Fair Practices also investigates systemic customer irritants.

Manitobans also have the option of taking Manitoba Public Insurance issues to the Office of the Provincial Ombudsman. This office has the power to investigate complaints, conduct reviews and seek redress.

## MANAGEMENT DISCUSSION

Our operations this year again underlined the depth of dedication and the abilities that Manitoba Public Insurance and its employees have demonstrated every day over the past three decades of service to Manitobans.

For more than 800,000 vehicle owners, fiscal 2001 will be remembered as the first time Manitoba Public Insurance ever returned a financial dividend. The one-time 16.6 per cent surplus distribution returned nearly $81 million to vehicle owners, reducing the price of the average policy by about $100. It will also be remembered as the year the corporation handled a record number of claims, while delivering outstanding customer service.

This is in stark contrast with what most Canadians experienced when buying auto insurance last year. Throughout North America auto insurers increased rates, reduced benefits and, in some jurisdictions, stopped writing policies.

Over the 30-year history of Manitoba Public Insurance, the price of auto insurance has increased at less than the rate of inflation. Over the last few years, insurance premiums have remained stable or dropped, ensuring Manitoba drivers continue to pay among the lowest premiums in Canada.

Most importantly, this measure of financial success has not been at the expense of customer service or the universality of the insurance program.

There is no doubt that the past year was a challenge for all insurers. In fact, one of our most significant achievements during 2001 was our ability to withstand national and international factors that have played havoc with insurers and the economy as a whole.

Throughout North America the insurance industry was rocked by the events of September 11. The enormous cost related to the destruction inflicted in New York and Washington, D.C.—thought to be up to $65 billion U.S.—increased the worldwide cost of reinsurance. Major insurers, including Manitoba Public Insurance, purchase reinsurance coverage to help spread the risk of large claims or a series of claims. In the wake of September 11, reinsurance premiums have increased, in some cases, more than 300 per cent.

Throughout North America, a general economic slowdown contributed further to the financial impact by reducing investment income, which, in the public insurance system, is used to reduce the premiums paid by individuals.

Here in Manitoba, an unprecedented volume of claims also negatively impacted our financial results. One in three vehicle owners required coverage, pushing the total number of claims for fiscal 2001 to 240,000, an increase of 13,000 over the previous year.

While volume accounted for significant cost increases, the severity of collision claims also rose by nearly five per cent and the costs of repairs jumped by more than 10 per cent as parts prices increased by 11 to 17 per cent. During the fiscal period, Manitoba Public Insurance experienced its second largest hail loss in its history as more than 10,000 vehicle owners filed claims totaling $20 million.

Overall, claims costs in 2001 rose $79 million to $575 million. That is $30 million more than was expected. Claims costs, combined with lower than anticipated investment returns, left the corporation with its first operating loss in six years.

The Rate Stabilization Reserve (RSR) continues to be an important safety mechanism for our policyholders. Rather than going directly to Manitobans to cover the impact of unexpected losses, the RSR has given

Manitoba Public Insurance the ability to adapt its business plan and smooth adjustments, ensuring premium stability into the future.

Throughout the year, unparalleled workloads did not diminish the service our employees provided to Manitobans. When an August hailstorm hit Winnipeg, staff responded by working extended hours to provide six-day-a-week service. The dedicated Hail Claim Centre, which drew staff from throughout the corporation, processed about 300 claims a day, providing exceptional service under extraordinary circumstances. Throughout the year, Manitoba Public Insurance met or exceeded established Customer Service Standards nine times out of 10.

Manitoba Public Insurance has implemented risk-mitigation strategies to reduce the pressure of increased costs. The corporation has negotiated competitive multi-year agreements for labour, vehicle rentals and towing. Our alternate parts program contributed to a saving of more than $18.5 million. Finally, we also reviewed staff deployment in order to provide the best possible customer service and the greatest possible operating efficiencies.

These successful strategies enabled Manitoba Public Insurance in fiscal 2001 to safely repair vehicles to the highest international standards while keeping the average collision claim 25 per cent lower than the Canadian industry average.

Management will continue to be challenged every year by short-term and longer-term issues. Focusing on factors such as cost, benefits and service will enable Manitoba Public Insurance to respond with successful strategies that reduce risks. Anticipating and recognizing uncertainties that affect our business and responding with flexible strategies that adapt to changing times are key to surviving and thriving in today's economy.

No matter how challenging the economic and cultural circumstances, we strongly believe in continued support for two important cornerstones of our organization—our investment approach and road safety.

In addition to generating income that helps keep auto insurance premiums reasonable, our investments also further the development of this province. This past year, investment income reduced the average premium by about $75. But investments used to purchase health-care, school and municipal bonds also help construct and expand public facilities across this province, which, in turn, improves the quality of life throughout Manitoba.

Our long-term commitment to road safety education is also an investment on many levels. The very act of promoting and educating all Manitobans about safety on our streets is significant in its own right because this helps save lives and prevent injuries. As baby boomers move inexorably towards being "senior" drivers and as more and more of the "echo generation" takes to the road, we are evaluating our approach to road safety to tailor messages to groups such as these, which, statistically, present greater risks on the road.

Regrettably, though, research shows that Manitoba drivers seem more prepared than in the past to engage in risky behaviours. More than half believe they can drink and drive and not be caught by police. Nearly two-thirds of drivers admit to speeding and 59 per cent say they can do it without being caught. Education about the consequences of these behaviours is important in helping motorists understand the high human and financial cost of crashes. However, we firmly believe that appropriate levels of traffic enforcement and appropriate penalties are also important to bring about meaningful change.

## AUTOMOBILE INSURANCE DIVISION

Basic Autopac, Autopac Extension and Special Risk Extension (SRE) provide distinct but complementary insurance products to Manitobans.

The Basic Autopac package—no-fault injury compensation benefits, $200,000 third-party liability coverage and all-perils coverage—is mandatory for Manitoba-registered automobiles. Many Manitobans supplement their basic policies with optional Autopac Extension coverage, which Manitoba Public Insurance offers in competition with private insurance companies.

SRE, also operating in the competitive market, provides optional coverage for specialized risks. These include coverage for large commercial trucking fleets, vacationers' policies, depreciation coverage for new vehicles and new leased vehicle protection.

Autopac and SRE reported a combined net loss from annual operations of $16.5 million from March 1, 2001 to February 28, 2002. Together with a net income of $0.4 million from discontinued operations, this resulted in a corporate net loss from annual operations of $16.1 million. This report shows $83.0 million in retained earnings including SRE and Autopac Extension retained earnings of $79.5 million and retained earnings of $3.5 million from discontinued operations.

As of February 28, 2002, the Basic Rate Stabilization Reserve, which does not include Autopac Extension or SRE business, stands at $50.5 million, decreasing from $143.0 million as of February 28, 2001. This change reflects net losses from annual operations of $11.7 million and $80.8 million returned to vehicle owners in the form of a 16.6 per cent one-time surplus distribution in 2001. This reserve is required to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events and factors.

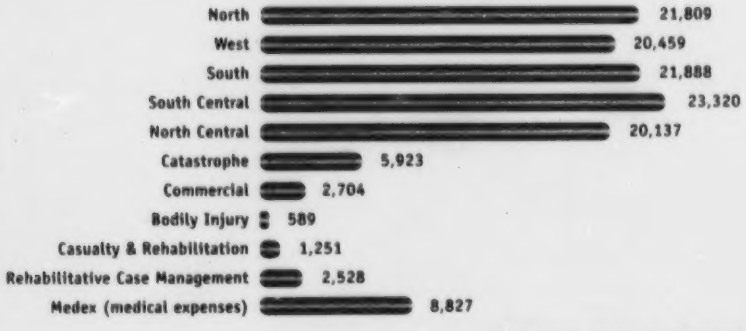
## AUTOPAC OPERATIONS CONTINUE TO BE STRONG

There were 239,753 claims reported in Manitoba during 2001/2002, contributing to total Autopac claims incurred of $479.2 million, excluding claims expense and loss prevention/road safety costs. The number of claims reported in the fiscal year increased by 12,785, or 5.6 per cent. The average cost per claim increased by $170 from $1,829 in 2000/2001 to $1,999 in 2001/2002.

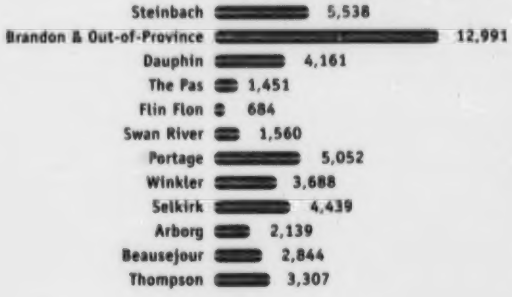
Overall claims costs increased from the previous year by $64.0 million.

Injury claims costs increased compared to the previous year by $26.8 million, due to an increase in PIPP benefits of $28.1 million, an increase in public liability claims incurred of $0.6 million and a decrease in pre-March 1994 accident benefit reserves of $1.9 million.

**Autopac Claims by Location (Winnipeg) Total 129,435**




**Autopac Claims by Location (Outside Winnipeg) Total 47,854**




**Total glass claims in Manitoba 62,464**

Physical damage claims costs increased by $37.2 million compared to last year. Property damage and collision claims costs increased by $14.9 million. Comprehensive claims costs increased by $22.3 million.

Vehicle thefts increased compared to the previous 12-month period from 10,791 to 11,750. Total theft claims costs for the period totalled $28.3 million.

Operating expenses for Basic and Extension Autopac totalled $82.8 million, compared to $85.8 million last year. This figure includes costs associated with regulatory and appeal processes, investment in information technology, commissions and premium taxes.

## SPECIAL RISK EXTENSION

Net income from SRE operations for the 12-month period totalled $6.8 million, compared to $14.7 million last year. This includes premium revenue of $33.8 million and investment income of $8.0 million, offset by claims costs, expenses, commissions and premium taxes totalling $35.0 million.

## DISCONTINUED OPERATIONS

Manitoba Public Insurance ceased offering personal and commercial lines policies as of October 1, 1990. All personal and commercial lines policies had expired by September 1991.

Discontinued operations showed a net income of $0.4 million for the year.

## INVESTMENT INCOME

After vehicle and driver premiums, the major source of revenue for Manitoba Public Insurance is investment income. This income, earned from the investment of funds not immediately needed to pay claims, reduces the corporation's premium requirements.

The corporation's investments in the community, with a portfolio consisting of provincial, municipal, hospital and school bonds and debentures, benefit Manitobans through the infrastructure and facilities constructed, in part, because of the availability of these funds.

The corporation earned total investment income of $71.9 million for the fiscal year, a decrease of $14.5 million compared to last year.

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| | 173 | 205 | 351 | 125 | 141 |
| | 152 | 148 | 161 | 149 | 126 |
| | 50 | 64 | 52 | 35 | 36 |
| | 2 | 6 | 2 | 1 | 4 |
| | 1 | 9 | 8 | 1 | 4 |
| | 688 | 669 | 660 | 468 | 480 |
| | 8,749 | 7,309 | 8,285 | 6,977 | 6,538 |
| | 756 | 598 | 1,023 | 1,525 | 1,274 |
| | 3,987 | 3,864 | 2,399 | 2,593 | 1,736 |
| | 14,558 | 12,872 | 12,941 | 11,874 | 10,339 |

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**INJURY CLAIMS**

| Type of Claim | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Chronic Pain | 173 | 205 | 351 | 125 | 141 |
| Fatal | 152 | 148 | 161 | 149 | 126 |
| Brain Damage | 50 | 64 | 52 | 35 | 36 |
| Quadriplegic | 2 | 6 | 2 | 1 | 4 |
| Paraplegic | 1 | 9 | 8 | 1 | 4 |
| Broken Limbs | 688 | 669 | 660 | 468 | 480 |
| Whiplash | 8,749 | 7,309 | 8,285 | 6,977 | 6,538 |
| Bruising/Lacerations | 756 | 598 | 1,023 | 1,525 | 1,274 |
| Other | 3,987 | 3,864 | 2,399 | 2,593 | 1,736 |
| Totals | 14,558 | 12,872 | 12,941 | 11,874 | 10,339 |

## 2001 | RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgments which have been reached based on careful assessment of data available through the Corporation's information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by the Internal Audit Department.

The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the Corporation.

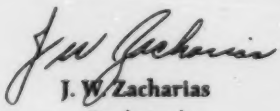
The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and his fee arrangements to the Board of Directors.

The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the Corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the actuary's opinion.

Arthur Andersen LLP, the Corporation's appointed external auditors, have audited the financial statements. Their Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the Corporation in accordance with Canadian generally accepted accounting principles.



**J. W. Zacharias**
President and
Chief Executive Officer
April 24, 2002

**B. W. Galenzoski**
Vice-President Corporate Finance
Chief Financial Officer and
Chief Administration Officer
April 24, 2002

## AUDITORS' REPORT

To the Board of Directors of Manitoba Public Insurance Corporation:

We have audited the balance sheets of Manitoba Public Insurance Corporation as at February 28, 2002 and 2001 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at February 28, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Arthur Andersen LLP
Winnipeg, Manitoba
April 24, 2002

## ACTUARY'S REPORT

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities of Manitoba Public Insurance Corporation for its balance sheet at February 28, 2002 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Jim Christie
**James K. Christie**
Fellow, Canadian Institute of Actuaries
April 24, 2002

| STATEMENT OF OPERATIONS AND RETAINED EARNINGS | Note | YEARS ENDED FEBRUARY 28 2002 | 2001 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| **REVENUE** | | | |
| Premiums written | | $ 595,171 | $ 539,054 |
| Premiums earned | 7 | $ 567,585 | $ 538,173 |
| Service fees | | 14,914 | 15,175 |
| Total earned revenues | | 582,499 | 553,348 |
| **CLAIMS COSTS** | | | |
| Claims incurred | 7 | | |
| Current year | | 509,376 | 463,579 |
| Prior years | 9 | (6,287) | (32,149) |
| | | 503,089 | 431,430 |
| Claims expense | | 65,491 | 58,741 |
| Loss prevention/Road safety | | 6,673 | 6,131 |
| | | 575,253 | 496,302 |
| **EXPENSES** | | | |
| Commissions | | 29,133 | 29,796 |
| Operating | | 45,535 | 45,547 |
| Premium taxes | | 15,030 | 16,493 |
| Regulatory/Appeal | | 1,927 | 1,880 |
| | | 91,625 | 93,716 |
| Total claims and expenses | | 666,878 | 590,018 |
| Underwriting (loss) | | (84,379) | (36,670) |
| Investment income, net | 10 | 67,887 | 83,298 |
| Net income (loss) before the undernoted | | (16,492) | 46,628 |
| Discontinued operations | 11 | 436 | (148) |
| Net income (loss) from annual operations | 13 | (16,056) | 46,480 |
| Surplus distribution | 12 | (80,825) | — |
| Net income (loss) after surplus distribution | | (96,881) | 46,480 |
| Allocation from (to) basic insurance rate stabilization reserve | 14 | 92,532 | (38,100) |
| | | (4,349) | 8,380 |
| Retained earnings balance beginning of year | | 87,384 | 79,004 |
| **Retained earnings balance end of year** | | $ 83,035 | $ 87,384 |

The accompanying notes are an integral part of these financial statements.

| BALANCE SHEET | | FEBRUARY 28 | |
|---|---|---|---|
| | | 2002 | 2001 |
| | Note | (in thousands of dollars) | |
| **ASSETS** | | | |
| Cash and investments | 4 | $ 1,175,704 | $ 1,154,994 |
| Due from other insurance companies | | 1,524 | 166 |
| Accounts receivable | | 136,514 | 137,906 |
| Deferred policy acquisition costs | | 11,588 | 17,845 |
| Reinsurers' share of unearned premiums | | 8,515 | 11,786 |
| Reinsurers' share of unpaid claims | 9 | 61,499 | 42,126 |
| Capital assets | 5 | 27,183 | 25,064 |
| Deferred development costs | | 8,949 | 12,569 |
| | | 1,431,476 | 1,402,456 |
| **LIABILITIES, BASIC INSURANCE RATE STABILIZATION RESERVE AND RETAINED EARNINGS** | | | |
| Due to other insurance companies | | 9,733 | 15,728 |
| Accounts payable and accrued liabilities | | 18,900 | 19,163 |
| Unearned premiums | | 297,952 | 270,029 |
| Provision for employee current benefits | | 8,867 | 8,084 |
| Provision for employee future benefits | 6 | 87,086 | 80,731 |
| Provision for unpaid claims | 9 | 875,442 | 778,344 |
| | | 1,297,980 | 1,172,079 |
| Basic insurance rate stabilization reserve | 14 | 50,461 | 142,993 |
| Retained earnings | | 83,035 | 87,384 |
| | | 133,496 | 230,377 |
| | | $ 1,431,476 | $ 1,402,456 |

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Approved by the Board:

**Shari Decter Hirst**
Chairperson

**Paul Moist**
Director

| STATEMENT OF OPERATIONS AND RETAINED EARNINGS | Note | YEARS ENDED FEBRUARY 28 | |
|---|---|---|---|
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**Shari Decter Hirst**
Chairperson

**Paul Moist**
Director

| STATEMENT OF CASH FLOWS | | YEARS ENDED FEBRUARY 28 | |
|---|---|---|---|
| | | 2002 | 2001 |
| | Note | (in thousands of dollars) | |
| RESOURCES PROVIDED FROM (APPLIED TO) OPERATIONS | | | |
| Net income (loss) after surplus distribution | | $ (96,881) | $ 46,480 |
| Discontinued operations | | (436) | 148 |
| Non-cash items: | | | |
| Amortization of capital assets and deferred development costs | | 7,213 | 7,840 |
| Amortization of bond discount and premium | | 2,647 | 3,102 |
| Gain on sale of investments | | (15,764) | (2,188) |
| Write-down of investment | | 2,645 | 2,207 |
| | | (100,576) | 57,589 |
| Increase (decrease) in cash and short-term investments from discontinued operations | | 102 | (4,934) |
| Net change in non-cash balances | | 116,458 | 57,719 |
| | | 15,984 | 110,374 |
| RESOURCES PROVIDED FROM (APPLIED TO) INVESTING ACTIVITIES | | | |
| Acquisition of capital assets net of proceeds from disposals | | (5,711) | (7,907) |
| Purchase of investments | | (475,065) | (473,062) |
| Proceeds from sale of investments | | 499,956 | 383,373 |
| Deferred development costs incurred | | — | (1,031) |
| | | 19,180 | (98,627) |
| INCREASE IN CASH AND SHORT-TERM INVESTMENTS | | 35,164 | 11,747 |
| Cash and short-term investments beginning of year | | 77,955 | 66,208 |
| CASH AND SHORT-TERM INVESTMENTS END OF YEAR | 4 | $ 113,119 | $ 77,955 |

The accompanying notes are an integral part of these financial statements.

| STATEMENT OF CASH FLOWS | Note | YEARS ENDED FEBRUARY 28 2002 | 2001 |
|---|---|---|---|
| | | (in thousands of dollars) | |
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| **CASH AND SHORT-TERM INVESTMENTS END OF YEAR** | 4 | $ 113,119 | $ 77,955 |

The accompanying notes are an integral part of these financial statements.

## 1 | STATUS OF THE CORPORATION

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown Corporation under The Automobile Insurance Act in 1970. In 1974, The Automobile Insurance Act was revised and became The Manitoba Public Insurance Corporation Act (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba.

Under the provisions of its Act and regulations, the Corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for basic universal compulsory automobile insurance, extension and special risk coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies.

## 2 | BASIS OF REPORTING

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of The Manitoba Public Insurance Corporation Act and are presented in accordance with Canadian generally accepted accounting principles.

The external actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the external actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Corporation's Board of Directors.

The external actuary, in his verification of the information prepared by the Corporation used in the valuation, also uses the work of the external attest auditors.

The external attest auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external attest auditors also make use of the work of the external actuary and his report on the Corporation's policy liabilities. The external attest auditors' report outlines the scope of their audit and their opinion.

## 3 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary outlines those accounting policies followed by the Corporation which have a significant effect on the financial statements.

### Investments

Investments in bonds are carried at amortized costs. The applicable discounts or premiums are amortized over the life of the bond. Funds available for investments are invested by the Department of Finance, on behalf of the Corporation, in accordance with Section 12(1) of The Manitoba Public Insurance Corporation Act.

Investments in equities and other investments are carried at cost. Dividends on equity investments are recognized on an accrual basis.

Gains and losses on investments are recognized on the date of sale. Investments are written down when there is a decline in value that is considered other than temporary.

The Corporation has invested in an equity-linked note that is similar to a bond instrument, except for the interest component which is indexed to the Standard & Poor's 500 Composite Stock Price Index. Any interest component arising from changes in the index is recorded currently in the Statement of Operations and Retained Earnings under the heading "Investment income, net".

### Total Return Swaps

The Corporation invests in total return swaps as part of its investment strategy to provide limited exposure to certain equity markets. Total return swaps are financial instruments whose value is derived from an underlying financial instrument, product or index. Total return swaps are recorded at fair value at the balance sheet date and presented under the heading "Cash and investments". Any gains or losses arising from changes in fair value are recorded currently in the Statement of Operations and Retained Earnings under the heading "Investment income, net".

### Deferred Policy Acquisition Costs

Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

### Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life:

| | |
|---|---|
| Land improvements | 25 years |
| Buildings | 40 years |
| Equipment: | |
| • Data processing | 3 years |
| • Automotive | 5 years |
| • Other | 10 years |

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

### Deferred Development Costs

The costs of developing major information systems which are expected to be of continuing benefit to the Corporation are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and are amortized on a straight-line basis over five years.

### Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

### Provision for Employee Current Benefits

The provision for employee current benefits includes an accrual for vacation pay determined in accordance with the Collective Agreement.

### Provision for Employee Future Benefits

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

### Pension Benefit Plan

The employees of the Corporation are members of a defined benefit pension plan administered under the Civil Service Superannuation Act. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the Corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Experience gains and losses are amortized over the expected average remaining service life of the employee group.

### Other Benefit Plans

Other benefit plans consist of post-retirement extended health and severance pay benefits.

The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the Corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs.

Employees of the Corporation are entitled to severance pay in accordance with the Collective Agreement and Corporation policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the Corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire. The resulting provision is amortized over the expected average remaining service life of the employee group.

### Provision for Unpaid Claims

The provision for unpaid claims represents an estimate for the full amount of all costs, including adjustment expenses, and the projected final settlements of claims incurred to the balance sheet date. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period. The provision does not consider the time value of money and does not contain an explicit provision for adverse deviation except for accident benefit claims.

### Salvage and Subrogation

Recoveries from salvage and subrogation are recorded as an offset to claim costs. Expected future subrogation recoveries are included in the provision for unpaid claims.

### Premium Deficiencies

A premium deficiency exists when future claims and related expenses exceed unearned premiums. In calculating a premium deficiency, the Corporation recognizes anticipated investment income.

Premium deficiencies are recognized first by writing down the deferred policy acquisition costs with any remainder recognized as a liability.

### Allocation of Revenue, Claims Incurred and Expenses

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Investment income is allocated to the automobile insurance division lines of business and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business and the discontinued general insurance division on the following basis:

i) Identifiable direct expenses are charged to each division.

ii) Where direct allocation is not possible, expenses are prorated to each division based mainly on factors such as space, number of employees and time usage. The formulas developed for the allocation of expenses are approved by the Board of Directors.

### Reinsurance Ceded

Premiums, claims and expenses reported in the statement of operations and retained earnings are reported net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

The reinsurers' share of unearned commissions is recognized as a liability in a manner which is consistent with the method used by the Corporation in determining deferred policy acquisition costs.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used by the Corporation in determining the unearned premium liability.

### Foreign Currency Translation

Monetary items denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the year-end. Revenue and expense items in foreign currencies are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

### Basic Insurance Rate Stabilization Reserve

The basic insurance rate stabilization reserve relates to basic compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

### Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the extension, special risk and discontinued lines of business.

### Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## 4 | CASH AND INVESTMENTS

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| | (in thousands of dollars) | | | |
| Cash and short-term investments | $ 113,119 | $ 113,119 | $ 77,955 | $ 77,955 |
| Bonds | | | | |
| Federal | 133,219 | 133,020 | 144,181 | 146,587 |
| Manitoba: | | | | |
| Provincial | 154,163 | 157,884 | 87,991 | 90,762 |
| Municipal | 47,400 | 47,946 | 81,626 | 87,485 |
| Hospitals | 16,331 | 16,332 | 17,523 | 17,541 |
| Schools | 254,907 | 254,907 | 239,875 | 239,875 |
| Other Provinces | 247,586 | 257,485 | 271,509 | 281,654 |
| Corporations | 86,757 | 90,418 | 125,499 | 128,238 |
| Equity-linked note | 20,000 | 20,000 | 20,000 | 20,000 |
| | 960,343 | 977,992 | 988,204 | 1,012,142 |
| Other | 4,237 | 4,237 | 5,237 | 5,237 |
| Equity investments and total return swaps | 98,005 | 110,417 | 83,598 | 92,481 |
| | 102,242 | 114,654 | 88,835 | 97,718 |
| | $ 1,175,704 | $ 1,205,765 | $ 1,154,994 | $ 1,187,815 |

Fair value, for cash and short-term investments, approximate carrying value due to the short-term maturity of these financial instruments.

The fair value of bonds for federal, provincial, certain municipal, other provinces and corporations is estimated based on bid prices of these or similar investments.

The fair value of certain municipal, hospitals, school bonds and other is based on their carrying value which approximates market value.

The fair value of the equity-linked note and equity investments is based upon quoted market values. External fund managers have been allocated a proportion of the Corporation's investment pool to invest in equity markets with an objective of generating a long-term return of 1.5% over the benchmark indices.

The fair value of the portfolio of total return swaps is based upon market prices of the underlying stock market indices at the balance sheet date, net of estimated unwinding costs.

### Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the extension, special risk and discontinued lines of business.

### Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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| | 2002 | | 2001 | |
|---|---|---|---|---|
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| | (in thousands of dollars) | | | |
| Cash and short-term investments | $ 113,119 | $ 113,119 | $ 77,955 | $ 77,955 |
| Bonds | | | | |
| Federal | 133,219 | 133,020 | 144,181 | 146,587 |
| Manitoba: | | | | |
| Provincial | 154,163 | 157,884 | 87,991 | 90,762 |
| Municipal | 47,400 | 47,946 | 81,626 | 87,485 |
| Hospitals | 16,311 | 16,332 | 17,523 | 17,541 |
| Schools | 254,907 | 254,907 | 239,875 | 239,875 |
| Other Provinces | 247,586 | 257,485 | 271,509 | 281,654 |
| Corporations | 86,757 | 90,418 | 125,499 | 128,238 |
| Equity-linked note | 20,000 | 20,000 | 20,000 | 20,000 |
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The fair value of the portfolio of total return swaps is based upon market prices of the underlying stock market indices at the balance sheet date, net of estimated unwinding costs.

### Investment Risk

Investments carry certain financial risks including interest rate, cash flow and credit risk. The Corporation manages these risks through the Investment Committee of the Board, which meets quarterly to discuss strategy. The investment objectives and goals of the Corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs. Credit risk is also managed through the use of master netting agreements in all total return swap contracts. Such agreements provide for the simultaneous close-out and netting of transactions with a counterparty in the event of default.

Significant terms and conditions, exposure to interest rate and credit risks on investments are:

#### i) Cash and short-term investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. Included in cash and short-term investments are funds held in trust on behalf of other insurance companies in the amount of $3,700,000 (2001 - $2,105,000).

Short-term investments have a total principal amount of $106,280,000 (2001 - $77,944,000) comprised of provincial short-term deposits with effective interest rates of 1.95% to 2.10% (2001 – 5.05% to 5.75%), with interest receivable at varying dates.

#### ii) Bonds - interest rate risk

| | | 2002 | | 2001 | |
|---|---|---|---|---|---|
| | INTEREST RECEIVABLE BASIS | EFFECTIVE RATE | COUPON RATE | EFFECTIVE RATE | COUPON RATE |
| | | % RANGE | | % RANGE | |
| Federal | semi-annual | 2.49 to 5.80 | 4.00 to 10.00 | 4.51 to 5.72 | 4.25 to 10.00 |
| Provincial | semi-annual | 3.00 to 6.28 | 4.75 to 10.50 | 4.84 to 6.26 | 4.75 to 10.75 |
| Municipal | semi-annual | 3.07 to 16.10 | 6.00 to 17.50 | 5.01 to 17.32 | 6.00 to 18.50 |
| Hospitals | semi-annual | 10.13 to 16.00 | 10.13 to 16.00 | 10.13 to 16.00 | 10.13 to 16.00 |
| Schools | semi-annual | 5.66 to 14.05 | 5.75 to 14.75 | 5.66 to 14.10 | 5.75 to 14.75 |
| Corporations | semi-annual | 2.93 to 8.93 | 5.00 to 11.25 | 4.81 to 9.83 | 5.00 to 11.25 |

The Corporation has allocated investments with an average yield of 10.6% (2001 - 10.4%) to maturity to fully fund pre-March 1, 1994 discounted unpaid claims of approximately $26.5 million.

**iii) Bonds - maturity profile**

| 2002 | WITHIN ONE YEAR | ONE YEAR TO FIVE YEARS | AFTER FIVE YEARS | TOTAL CARRYING VALUE |
|---|---|---|---|---|
| | (in thousands of dollars) | | | |
| Federal | $ 1,006 | $ 30,742 | $ 101,471 | $ 133,219 |
| Manitoba: | | | | |
| Provincial | — | 10,720 | 143,443 | 154,163 |
| Municipal | 13,503 | 5,944 | 27,953 | 47,400 |
| Hospitals | 308 | 834 | 15,169 | 16,311 |
| Schools | 23 | 15,139 | 239,745 | 254,907 |
| Other Provinces | — | 16,978 | 230,608 | 247,586 |
| Corporations | 5,007 | 24,697 | 57,053 | 86,757 |
| | 19,847 | 105,054 | 815,442 | 940,343 |
| Equity-linked note | — | — | 20,000 | 20,000 |
| | $ 19,847 | $ 105,054 | $ 835,442 | $ 960,343 |

| 2001 | WITHIN ONE YEAR | ONE YEAR TO FIVE YEARS | AFTER FIVE YEARS | TOTAL CARRYING VALUE |
|---|---|---|---|---|
| | (in thousands of dollars) | | | |
| Federal | $ 5,170 | $ 55,202 | $ 83,809 | $ 144,181 |
| Manitoba: | | | | |
| Provincial | — | 20,917 | 67,074 | 87,991 |
| Municipal | 14,302 | 19,434 | 47,890 | 81,626 |
| Hospitals | 457 | 1,700 | 15,366 | 17,523 |
| Schools | — | 10,016 | 229,859 | 239,875 |
| Other Provinces | 8,352 | 122,708 | 140,449 | 271,509 |
| Corporations | — | 38,917 | 86,582 | 125,499 |
| | 28,281 | 268,894 | 671,029 | 968,204 |
| Equity-linked note | — | — | 20,000 | 20,000 |
| | $ 28,281 | $ 268,894 | $ 691,029 | $ 988,204 |

**Total Return Swaps**

In the normal course of operations, the Corporation enters into total return swaps to provide a return based upon an underlying Canadian and/or USA equity index. The agreements provide that, at predetermined future dates, the Corporation pays a fixed interest amount based upon a notional principal amount and receives a return based upon the underlying equity index.

The notional amounts of total return swaps are not recorded as assets or liabilities on the balance sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged under the contracts. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments.

At February 28, 2002 the notional amount of total return swaps was $83,124,000 (2001 - $49,421,000). All total return swaps have a residual term to contractual maturity of one year or less.

As at February 28, 2002, the Corporation had a commitment to purchase a total return swap with a notional amount of $36,000,000, to replace total return swaps with a combined notional amount of $27,405,000 that mature March 5, 2002.

### Investment Risk

Investments carry certain financial risks including interest rate, cash flow and credit risk. The Corporation manages these risks through the Investment Committee of the Board, which meets quarterly to discuss strategy. The investment objectives and goals of the Corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs. Credit risk is also managed through the use of master netting agreements in all total return swap contracts. Such agreements provide for the simultaneous close-out and netting of transactions with a counterparty in the event of default.

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### ii) Bonds - interest rate risk

| | INTEREST RECEIVABLE BASIS | 2002 | | 2001 | |
|---|---|---|---|---|---|
| | | EFFECTIVE RATE | COUPON RATE | EFFECTIVE RATE | COUPON RATE |
| | | % RANGE | | % RANGE | |
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|---|---|---|---|---|
| | (in thousands of dollars) | | | |
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| Manitoba: | | | | |
| Provincial | — | 20,917 | 67,074 | 87,991 |
| Municipal | 14,302 | 19,434 | 47,890 | 81,626 |
| Hospitals | 457 | 1,700 | 15,366 | 17,523 |
| Schools | — | 10,016 | 229,859 | 239,875 |
| Other Provinces | 8,352 | 122,708 | 140,449 | 271,509 |
| Corporations | — | 38,917 | 86,582 | 125,499 |
| | 28,281 | 268,894 | 671,029 | 968,204 |
| Equity-linked note | — | — | 20,000 | 20,000 |
| | $ 28,281 | $ 268,894 | $ 691,029 | $ 988,204 |

### Total Return Swaps

In the normal course of operations, the Corporation enters into total return swaps to provide a return based upon an underlying Canadian and/or USA equity index. The agreements provide that, at predetermined future dates, the Corporation pays a fixed interest amount based upon a notional principal amount and receives a return based upon the underlying equity index.

The notional amounts of total return swaps are not recorded as assets or liabilities on the balance sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged under the contracts. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments.

At February 28, 2002 the notional amount of total return swaps was $83,124,000 (2001 - $49,421,000). All total return swaps have a residual term to contractual maturity of one year or less.

As at February 28, 2002, the Corporation had a commitment to purchase a total return swap with a notional amount of $36,000,000, to replace total return swaps with a combined notional amount of $27,405,000 that mature March 5, 2002.

## 5 | CAPITAL ASSETS

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | COST | ACCUMULATED AMORTIZATION | CARRYING VALUE | CARRYING VALUE |
| | (in thousands of dollars) | | | |
| Land | $ 1,919 | $ — | $ 1,919 | $ 1,919 |
| Land improvements | 3,668 | 1,266 | 2,402 | 2,017 |
| Buildings | 22,398 | 7,558 | 14,840 | 13,717 |
| Equipment | 38,482 | 30,460 | 8,022 | 7,411 |
| | 66,467 | 39,284 | 27,183 | 25,064 |
| Leasehold improvements | 1,527 | 1,527 | — | — |
| | $ 67,994 | $ 40,811 | $ 27,183 | $ 25,064 |

## 6 | PROVISION FOR EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit plans providing pension and other benefits to eligible employees. The results from the latest valuation as at December 31, 2001 projected to February 28, 2002 and the major assumptions used are as follows:

| | PENSION BENEFIT PLAN | | OTHER BENEFIT PLANS | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| **Economic assumptions:** | | | | |
| Discount rate | 6.25% | 6.50% | 6.25% | 6.50% |
| Inflation rate | 2.00% | 2.00% | — | — |
| Expected salary increase | 3.00% | 3.00% | — | — |
| Expected health care cost increase | — | — | 2.50% | 2.50% |
| | (in thousands of dollars) | | | |
| **Plan valuations:** | | | | |
| Present value of plan benefits | $ 77,486 | $ 67,225 | $ 12,149 | $ 10,775 |
| Unamortized actuarial gains (losses) | (2,549) | 2,731 | — | — |
| Provision for employee future benefits | $ 74,937 | $ 69,956 | $ 12,149 | $ 10,775 |
| **Financial information:** | | | | |
| Plan expense | $ 6,975 | $ 5,123 | $ 1,896 | $ 2,550 |
| Allocated to investment income (Note 10) | (3,876) | (2,972) | — | — |
| | $ 3,099 | $ 2,151 | $ 1,896 | $ 2,550 |
| Employee contributions | $ 3,331 | $ 2,846 | — | — |
| Benefits/premiums paid | $ 1,994 | $ 1,658 | $ 522 | $ 508 |

The Corporation has not segregated investment assets to fund the benefit plans. Funding occurs as benefits are paid to employees.

## 7 | REINSURANCE

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 28, 2002, these reinsurance agreements limit the Corporation's exposure to a maximum amount of $2.0 million (2001 - $1.0 million) on any one occurrence.

The reinsurance arrangements also limit the Corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of $6.7 million (2001 - $5.0 million). These arrangements protect the Corporation against losses up to $183.3 million (2001 - $200.0 million).

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the Corporation.

The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency.

The figures shown in the statement of operations and retained earnings, excluding discontinued operations, are net of the following amounts relating to reinsurance ceded to other companies:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Premiums earned | $ 14,246 | $ 11,581 |
| Claims incurred | $ 24,710 | $ 7,403 |

The Corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of $5.6 million (2001 - $4.0 million).

## 8 | OPERATING LEASE COMMITMENTS

The Corporation is committed to make minimum annual operating lease payments for buildings and equipment. The minimum annual lease payments required are approximately as follows:

| FISCAL YEAR | MINIMUM LEASE PAYMENTS |
|---|---|
| | (in thousands of dollars) |
| 2003 | $ 2,787 |
| 2004 | $ 2,512 |
| 2005 | $ 2,085 |
| 2006 | $ 2,063 |
| 2007 | $ 2,063 |
| thereafter | $ 2,063 |

## 9 | PROVISION FOR UNPAID CLAIMS

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | GROSS | REINSURERS' SHARE | GROSS | REINSURERS' SHARE |
| | (in thousands of dollars) | | | |
| Automobile Insurance Division | | | | |
| Liability | $ 782,614 | $ 52,352 | $ 696,887 | $ 42,126 |
| Physical Damage | 83,830 | 9,147 | 72,087 | — |
| | 866,444 | 61,499 | 768,974 | 42,126 |
| Discontinued Operations | | | | |
| Personal/Commercial | 8,998 | — | 9,370 | — |
| | $ 875,442 | $ 61,499 | $ 778,344 | $ 42,126 |

## 5 | CAPITAL ASSETS

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | COST | ACCUMULATED AMORTIZATION | CARRYING VALUE | CARRYING VALUE |
| | (in thousands of dollars) | | | |
| Land | $ 1,919 | $ — | $ 1,919 | $ 1,919 |
| Land improvements | 3,668 | 1,266 | 2,402 | 2,017 |
| Buildings | 22,398 | 7,558 | 14,840 | 13,717 |
| Equipment | 38,482 | 30,460 | 8,022 | 7,411 |
| | 66,467 | 39,284 | 27,183 | 25,064 |
| Leasehold improvements | 1,527 | 1,527 | — | — |
| | $ 67,994 | $ 40,811 | $ 27,183 | $ 25,064 |

## 6 | PROVISION FOR EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit plans providing pension and other benefits to eligible employees. The results from the latest valuation as at December 31, 2001 projected to February 28, 2002 and the major assumptions used are as follows:

| | PENSION BENEFIT PLAN | | OTHER BENEFIT PLANS | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Economic assumptions: | | | | |
| Discount rate | 6.25% | 6.50% | 6.25% | 6.50% |
| Inflation rate | 2.00% | 2.00% | — | — |
| Expected salary increase | 3.00% | 3.00% | — | — |
| Expected health care cost increase | — | — | 2.50% | 2.50% |
| | (in thousands of dollars) | | | |
| Plan valuations: | | | | |
| Present value of plan benefits | $ 77,486 | $ 67,225 | $ 12,149 | $ 10,775 |
| Unamortized actuarial gains (losses) | (2,549) | 2,731 | — | — |
| Provision for employee future benefits | $ 74,937 | $ 69,956 | $ 12,149 | $ 10,775 |
| Financial information: | | | | |
| Plan expense | $ 6,975 | $ 5,123 | $ 1,896 | $ 2,550 |
| Allocated to investment income (Note 10) | (3,876) | (2,972) | — | — |
| | $ 3,099 | $ 2,151 | $ 1,896 | $ 2,550 |
| Employee contributions | $ 3,331 | $ 2,846 | — | — |
| Benefits/premiums paid | $ 1,994 | $ 1,658 | $ 522 | $ 508 |

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Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the Corporation.

The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency.

The figures shown in the statement of operations and retained earnings, excluding discontinued operations, are net of the following amounts relating to reinsurance ceded to other companies:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Premiums earned | $ 14,246 | $ 11,581 |
| Claims incurred | $ 24,710 | $ 7,403 |

The Corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of $5.6 million (2001 - $4.0 million).

## 8 | OPERATING LEASE COMMITMENTS

The Corporation is committed to make minimum annual operating lease payments for buildings and equipment. The minimum annual lease payments required are approximately as follows:

| FISCAL YEAR | MINIMUM LEASE PAYMENTS |
|---|---|
| | (in thousands of dollars) |
| 2003 | $ 2,787 |
| 2004 | $ 2,512 |
| 2005 | $ 2,085 |
| 2006 | $ 2,063 |
| 2007 | $ 2,063 |
| thereafter | $ 2,063 |

## 9 | PROVISION FOR UNPAID CLAIMS

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | GROSS | REINSURERS' SHARE | GROSS | REINSURERS' SHARE |
| | (in thousands of dollars) | | | |
| Automobile Insurance Division | | | | |
| Liability | $ 782,614 | $ 52,352 | $ 696,887 | $ 42,126 |
| Physical Damage | 83,830 | 9,147 | 72,087 | — |
| | 866,444 | 61,499 | 768,974 | 42,126 |
| Discontinued Operations | | | | |
| Personal/Commercial | 8,998 | — | 9,370 | — |
| | $ 875,442 | $ 61,499 | $ 778,344 | $ 42,126 |

The provision for unpaid claims includes $562.0 million (2001 - $358.1 million) in unpaid personal injury protection plan (P.I.P.P.) and pre-P.I.P.P. accident benefits. This provision is discounted to reflect the time value of money using various interest rates as follows:

| Benefits | Interest Rate Assumptions |
|---|---|
| **Pre-P.I.P.P. Weekly Indemnity** | 8.0% for nine years and 2.0% thereafter |
| **Pre-P.I.P.P. Other than weekly indemnity, P.I.P.P. Death and Impairment** | By year – 5.75%, 5.40%, 5.05%, 4.70%, 4.35% and 4.00% thereafter |
| **P.I.P.P. Other than death and impairment** | 3.0% for one year and 2.0% thereafter |

Net incurred claims and adjustment expenses include losses from catastrophes of $5.0 million (2001 — Nil). Catastrophes are an inherent risk to the Corporation and may contribute materially to the year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur.

Unpaid claim liabilities are carried at a value which reflect their remaining estimated ultimate costs for all accident years.

Changes in the estimate of net unpaid claims, for the Automobile Insurance Division, recognized during the fiscal year ended February 28, 2002 for prior years are as follows:

| | ACCIDENT YEARS | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 AND PRIOR | TOTAL |
| | (in thousands of dollars) | | | | |
| Net unpaid claims (valuation estimate as at February 28, 2001) | $ 218,885 | $ 100,095 | $ 81,937 | $ 324,080 | |
| Net payments for the year | 88,855 | 15,228 | 9,394 | 30,816 | |
| | 130,030 | 84,867 | 72,543 | 293,264 | |
| Net unpaid claims (revised valuation estimate as at February 28, 2002) | 116,018 | 86,921 | 74,105 | 297,373 | |
| (Redundancy) Deficiency | $ (14,012) | $ 2,054 | $ 1,562 | $ 4,109 | $ (6,287) |
| Prior years (redundancy) deficiency | | $ (20,033) | $ (7,455) | $ (4,661) | $ (32,149) |

The claims settlement processes may involve the use of structured settlements, which are purchased through various financial institutions. As of the balance sheet date, the present value of expected payments total $107.9 million (2001 - $94.5 million) based on various dates of purchase. The Corporation assumes a financial guarantee to make payments to claimants in the event that financial institutions default on payments under the terms of the structured settlement.

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 28, 2002 are $0.4 million (2001 - $4.2 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

## 10 | INVESTMENT INCOME, NET

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Total investment income | $ 71,887 | $ 86,412 |
| Less allocation to: | | |
| Discontinued operations | 124 | 142 |
| Provision for pension benefit plan | 3,876 | 2,972 |
| Investment income, net | $ 67,887 | $ 83,298 |

## 11 | DISCONTINUED GENERAL INSURANCE OPERATIONS

The Corporation discontinued writing reinsurance assumed business effective November 18, 1987 and personal and commercial insurance policies effective October 1, 1990.

As of February 28, 2001 the Corporation accepted a third party offer to purchase the reinsurance assumed business from the Corporation. Under the terms of the agreement, the Corporation transferred and assigned to the third party the title, interest and all of the obligations resulting from the uncommuted reinsurance assumed treaties written by the Corporation for the period July 1, 1975 to November 18, 1987 including retrocessional treaties. The obligations include all known or unknown liabilities. The primary liability to the treaty holders remains with the Corporation in the event of the third party's insolvency. As at February 28, 2001 the provision for reinsurance assumed has been included as part of "Due to other insurance companies" on the balance sheet of the Corporation.

Claims costs and expenses on personal and commercial policies will be incurred until all claims on existing policies are settled.

Discontinued operations resulted in a net income of $0.4 million in 2002 (net loss of $0.1 million in 2001). Included in the provision for unpaid claims is $9.0 million (2001 - $9.4 million) relating to discontinued operations.

## 12 | SURPLUS DISTRIBUTION

On December 4, 2000 the Public Utilities Board of Manitoba approved the Corporation's 2001/2002 Basic Insurance rate application which included a one-time surplus distribution of 16.6% on motor vehicle premiums renewed during the current fiscal year. To fund the surplus distribution an amount of $80.8 million (note 14) was allocated from the basic insurance rate stabilization reserve to the statement of operations and retained earnings.

## 13 | NET INCOME (LOSS) FROM ANNUAL OPERATIONS

The net income (loss) from annual operations by line of business is as follows:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| Basic insurance | $ (11,707) | $ 38,100 |
| Extension insurance | (11,606) | (6,130) |
| Special risk extension | 6,821 | 14,658 |
| Discontinued operations | 436 | (148) |
| | (4,349) | 8,380 |
| Net income (loss) from annual operations | $ (16,056) | $ 46,480 |

The provision for unpaid claims includes $562.0 million (2001 - $358.1 million) in unpaid personal injury protection plan (P.I.P.P.) and pre-P.I.P.P. accident benefits. This provision is discounted to reflect the time value of money using various interest rates as follows:

| Benefits | Interest Rate Assumptions |
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| Discontinued operations | 436 | (148) |
| | (4,349) | 8,380 |
| Net income (loss) from annual operations | $ (16,056) | $ 46,480 |

## 14 | BASIC INSURANCE RATE STABILIZATION RESERVE

| | Note | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| Balance beginning of year | | $ 142,993 | $ 104,893 |
| Net income (loss) from annual operations | 13 | (11,707) | 38,100 |
| Surplus distribution | 12 | (80,825) | — |
| | | (92,532) | 38,100 |
| Balance at end of year | | $ 50,461 | $ 142,993 |

## 15 | FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities, other than cash and investments (note 4) and provision for unpaid claims (note 9) approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

## 16 | EXTERNAL ATTEST AUDITOR AND EXTERNAL ACTUARY COSTS

The Basis of Reporting note (note 2) provides information on the appointment of the external attest auditor and external actuary. In the normal course of business, and in addition to the annual attest audit of the Corporation's financial statements and valuation of policy liabilities, the external attest auditor and external actuary provided consulting services to the Corporation.

Costs incurred for services rendered are:

| | 2002 | 2001 |
|---|---|---|
| | (in thousands of dollars) | |
| **EXTERNAL ATTEST AUDITOR** | | |
| Attest Audit Fees | $ 101 | $ 99 |
| Consulting Fees | 117 | 27 |
| Total | $ 218 | $ 126 |
| **EXTERNAL ACTUARY** | | |
| Valuation of Policy Liabilities Fees | $ 58 | $ 49 |
| Actuarial Consulting Fees | 26 | 173 |
| Management Consulting Fees | 81 | 71 |
| Total | $ 165 | $ 293 |

## 17 | SUBSEQUENT EVENT

Commencing March 1, 2002 and annually thereafter on March 1, the Corporation will transfer to the Basic Insurance Rate Stabilization Reserve, Special Risk Extension retained earnings in excess of the approved target level. The approved target level has been established by the Board of Directors to be $33.0 million for the three year period ending February 28, 2005.

At March 1, 2002 the transfer will approximate $15.0 million.

## 18 | COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year financial statement presentation.

## 14 | BASIC INSURANCE RATE STABILIZATION RESERVE

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## GOALS

Universally available mandatory protection against the cost of automobile accidents. Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

*1998 Chev Cavalier, 25% discount; All-Purpose use; $500 deductible, $1M third party liability

The Basic plan will return 85 per cent of premium revenue to Manitobans in the form of claims benefits.

Manitoba Public Insurance will be a leader in automobile insurance, providing Manitobans with superior products, coverage and service.

Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Customer service standards will be set by customer expectations and Manitoba Public Insurance will meet these service standards.

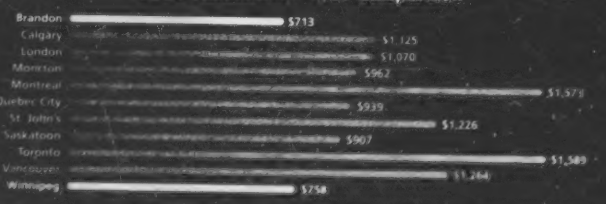
Rate Stabilization Reserve will be maintained within established target levels.

Manitoba Public Insurance will offer an environment and career opportunities that are attractive to productive, improvement-minded people. Our people will be treated with respect and fairness and their contributions will be recognized.

Manitoba Public Insurance will lead initiatives on education to increase opportunities for drivers to enhance their driving skills and to increase public concern regarding risky driving behaviour.

## MEASURES

*2001 Runzheimer Rate Comparison




AMONG LOWEST RATES IN CANADA

PREMIUM RETURNED FOR EACH DOLLAR EARNED

PUBLIC SATISFACTION WITH CLAIMS PERFORMANCE

HOW OFTEN WE MET/EXCEEDED STANDARDS

IS RSR WITHIN TARGET RANGE?

LEVEL OF EMPLOYEE SATISFACTION

PUBLIC SUPPORT FOR ROAD SAFETY ACTIVITIES

# ADMINISTRATIVE OFFICES AND SERVICE CENTRES

## WINNIPEG LOCATIONS

**North Winnipeg Claim Centre** | 445 King Street | R2W 5H2 | Fax No. 942-8317

**North Central Winnipeg Claim Centre** | 1103 Pacific Avenue | R3E 1G7 | Fax No. 783-2764

**South Central Winnipeg Claim Centre** | 420 Pembina Highway | R3L 2E9 | Fax No. 284-7675

**South Winnipeg Claim Centre** | 930 St. Mary's Road | R2M 4A8 | Fax No. 254-0308

**West Winnipeg Claim Centre** | 125 Kingsbury Edward Street East | R3H 0V9 | Fax No. 783-0374

**Administrative Office** | Box 6300 | R3C 4A4 | 985-7000

**Physical Damage Centre** | 1981 Plessis Road | PO Box 45064 | Regent Postal Outlet | R2C 5C7 | 985-7771

| Commercial Vehicles 985-7877 | Holding Compound 985-7766 | Salvage Compound 985-7844

**Casualty and Rehabilitation Claim Centre** | Box 6300 | R3C 4A4 | 985-7200

**Rehabilitative Case Management Claim Centre** | Box 6300 | R3C 4A4 | 985-7200

**Bodily Injury Claim Centre** | Box 6300 | R3C 4A4 | 985-7000

**The Autopac Line** | Winnipeg 983-7000 | Outside Winnipeg 1-800-665-2410 | Hearing Impaired Line: 985-8832

## PROVINCIAL LOCATIONS

**Arborg Claim Centre** | Arborg Mall, Highway #68 | Box 418 | R0C 0A0 | 376-5815

**Beausejour Claim Centre** | 810 Park Avenue | Box 100A | R0E 0C0 | 268-4250

**Brandon Head Office/SRE/Claim Centre** | 1731 – 1st Street | R7A 6C3 | 729-9400 (Head Office/SRE)

| 729-9555 (Claim Centre) | 1-800-852-2743 (Brandon rural)

**Dauphin Claim Centre** | 247 Industrial Road | Box 3000 | R7N 2V5 | 622-2750

**Portage la Prairie Claim Centre** | 2007 Saskatchewan Avenue West | Box 1150 | R1N 3J9 | 856-2600

**Selkirk Claim Centre** | 630 Sophia Street | R1A 2K1 | 482-1400

**Steinbach Claim Centre** | 191 North Front Drive | Box 2139 | R0A 2A0 | 326-4453

**Winkler Claim Centre** | 600 Memorial Drive | Box 1990 | R6W 4B7 | 325-9538

**Thompson Claim Centre** | 55 Commercial Place | Box 760 | R8N 1N5 | 677-1400

**Flin Flon Claim Centre** | 5 Lumber Lane | Box 250 | R8A 1M9 | 681-2200

**Swan River Claim Centre** | 125 – 8th Avenue North | Box 1959 | R0L 1Z0 | 734-4574

**The Pas Claim Centre** | 124 Fischer Avenue | Box 9400 | R9A 1R5 | 627-2200

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